CHAPTER 7

JOURNAL

❖ **Systems of Book-Keeping**

- **Single Entry System**

  This system of accounting is also known as Incomplete Recording System. Under this system, only personal accounts and cash book are maintained in contrast to the maintaining of all the accounts as under the conventional system of accounting. This system of accounting relies on one sided accounting entry to maintain financial information.

- **Double Entry System**

  Double Entry System was first codified by the Franciscan friar Luca Pacioli in the 15th Century. According to this system of book-keeping, every financial transaction has two equal and opposite effects. It is used to satisfy the basic accounting equation i.e. Assets = Liabilities + Capital

  The balance of all debits and credits in double entry book keeping system is always equal, as debit in one account will be balanced by credit in another account. Under the double entry system of book keeping, it is easier to detect errors and prepare financial statements directly from the books of accounts.
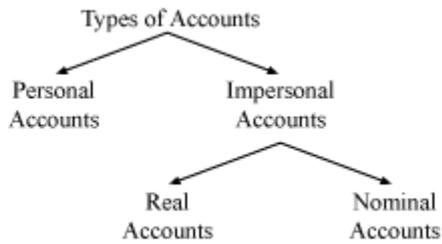
❖ **Classification of Accounts**

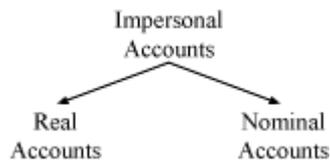The accounts can be classified under two approaches:

- o   Traditional Classification of Accounts

- o   Modern Classification of Accounts

❖ **Traditional Classification of Accounts**

According to this approach, accounts are divided in two broad categories:

- **Personal Account** – These accounts are named after the name of the persons or organisations like, Ram Account, Shyam Trader's Account, etc.

- **Impersonal Account** – These accounts are not named after the name of persons or organisations. Impersonal accounts are classified as:

- **Real Account** – These accounts are related to non-living things (tangible or intangible) like machinery, furniture, goodwill.

- **Nominal Account** – These accounts are related to revenues, expenses, gains and losses like, Sales Account, Purchases Account, Salary Account, Commission Paid Account, etc.

❖ **Modern Classification of Accounts**

According to this approach, accounts are broadly divided into five categories.
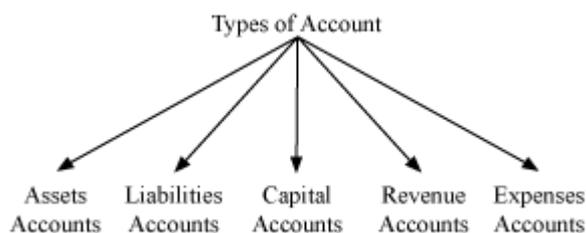
❖   **Rules of Debit and Credit**

Every transaction is recorded in the books of account with dual aspect, i.e. debit and credit. The rules of debit and credit depend on the classification of accounts.

Rules of Debit and Credit

On the basis of *Traditional Classification of Accounts*	On the basis of *Modern Classification of Accounts*
Rules for Personal Accounts • Debit- The Receiver • Credit- The Giver	***Rules for Assets Accounts*** • Debit, if assets increase • Credit, if assets decrease
Rules for Real Accounts • Debit- What Comes In • Credit-What Goes Out	***Rules for Liabilities Accounts*** ❖ Debit, if liabilities decrease ❖ Credit, if liabilities increase
Rules for Nominal Account • Debit- All Expenses and Losses • Credit- All Incomes and Gains	***Rules for Capital Accounts*** • Debit, if capital decreases • Credit, if capital increases
	Rules for Expenses Account • Debit, if expenses increase • Credit, if expenses decrease
	Rules for Revenue Account • Debit, if revenue decreases • Credit, if revenue increases

❖ **Books of Original entry**

This refers to the books in which transactions are recorded in the chronological order of their occurrence with the help of source document. This book is also called Journal. The books of original entry forms the basis of all further accounting practices.

- **Journalising** refers to the process of recording transaction in Journal.

Ways of Recording

Through Journal Proper   Through Subsidary Books
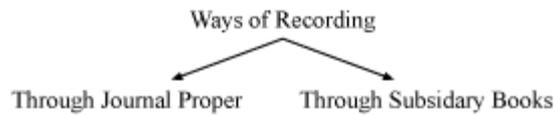
- **Format of Journal**

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

❖ **Cash Discount** – It refers to the discount given at the time of receiving and making payment of cash. Generally, cash discount is allowed for quick payments.

- If discount is allowed at the time of making cash or cheque payment, then it is known as discount received.

- If discount is allowed at the time of receiving cash or cheque payment, then it is known as discount allowed.

- **Trade Discount** – It is generally allowed by the wholeseller to the retailers on list price of goods and services at the time of sale.

NOTE: Trade Discount is not shown in the books, i.e. sales are recorded in the books after deducting Trade Discount. For example, sold goods list price of Rs 2,000 at 10% Trade Discount

Cash A/c	Dr.	1,800
To Sales A/c		1,800
(Goods sold list price Rs 2,000 at 10% Trade Discount)		

- **Trade Discount and Cash Discount**

  When both Trade Discount and Cash Discount is mentioned in the question, then first Trade Discount will be deducted from the list price of the goods and then Cash Discount will be provided on the amount of cash paid. For example:

- Sold goods list price of Rs 2,000 at 10% Trade Discount and 5% Cash Discount

Cash A/c	Dr.	1,710
Discount Allowed A/c	Dr.	90
To Sales A/c		1800

- Sold goods to Ashok Rs 2,000 at 10% Trade Discount and 5% Cash Discount he paid half of the amount immediately

Ashok A/c	Dr.	1,800
To Sales A/c		1,800

  (Goods sold to Ashok of list price Rs 2,000 at 10% Trade Discount)

Cash A/c	Dr.	855
Discount Allowed A/c	Dr.	45
To Ashok A/c		900

  (Cash received from Ashok 50% of the amount due from him and allowed him 5% Cash Discount)

- ❖ **Some Important Entries**
  - **Bad Debt**

Bad Debt A/c	Dr.	(When the whole amount is bad)
To Debtors		

Cash/ Bank A/c	Dr.	
Bad Debt A/c	Dr.	(When a part of debt is bad)
To Debtors		

- **Purchases**

  a) *Goods drawn by proprietor for personal use*

  Drawings A/c   Dr.

      To Purchases A/c

  b) *Goods given as charity*

  Charity A/c   Dr.

      To Purchases A/c

  c) *Goods distributed as free sample*

  Advertisement A/c   Dr.

      To Purchases A/c

  d) *Good lost by fire or theft*

  Goods lost by fire/ theft A/c   Dr.

      To Purchases A/c

  Profit and Loss A/c   Dr.   (If goods are not insured)

      To Goods lost by fire/ theft A/c

  Or,

  Profit and Loss A/c   Dr.

  Insurance Co. A/c   Dr.   (If goods are partly insured)

      To Goods lost by fire/ theft A/c

  Or,

  Insurance Co. A/c   Dr.   (If goods are fully insured)

      To Goods lost by fire/ theft A/c

  e) *Goods used to make an Asset*

  Asset A/c   Dr.

      To Purchases A/c

f) *Goods given to the employee in consideration of salaries or wages*

     Salaries/ Wages A/c   Dr.

         To Purchases A/c

- **Entries related to Assets**

a) *Purchases of Assets*

     Assets A/c   Dr.   (If it is purchased on cash)

         To Cash/ Bank

Or,

     Asset A/c   Dr.   (If it is purchased on credit)

         To Creditors for Assets

b) *Depreciation on Assets*

     Depreciation A/c   Dr.   (If accounts are maintained without

         To Assets A/c   provision for depreciation)

Or,

     Depreciation A/c   Dr.   (Provision for depreciation is

         To Provision for   maintained)

         Depreciation/

         Accumulated Depreciation

         A/c

c) *Sale of Assets*

     Cash/ Bank/ Debtors A/c   Dr.   (If Asset is sold without

         To Assets A/c   any loss)

Or,

     Cash/ Bank/ Debtor A/c   Dr.   (If asset is sold at loss)

     Profit and Loss A/c   Dr.

         To Assets A/c

d) *Expenditure on Purchase or Installation of Assets*

     Assets A/c   Dr.

         To Cash/ Bank/ Debtors

e) *Expenses Paid in advance/ Prepaid Expenses/ Unexpired expenses*

    Prepaid Expenses A/c   Dr.

         To Expenses A/c

f) *Accrued Income/ Income Outstanding/ Income due but not received*

    Accrued Income A/c   Dr.

         To Income A/c

g) *Unaccrued Income/ Advance Income/ Income received but not due*

    Income A/c   Dr.

         To Unaccrued Income A/c

Or,

    Cash/ Bank/ Debtors A/c   Dr.   (If Asset is sold at profit)

         To Assets A/c

         To Profit and Loss A/c

- **_Income Tax_**

    Drawings A/c   Dr.   (If Income tax is paid)

         To Cash/ Bank

Or,

    Drawings A/c   Dr.   (If income tax is due)

         To Income Tax Payable

- **_Bad debt recovered_**

    Cash/ Bank A/c   Dr.

         To Bad Debt Recovered A/c

- **_Outstanding Expenses/ Expenses Payable/ Expenses due_**

    Expenses A/c   Dr.

         To Expenses Outstanding A/c

❖ *Value Added Tax*

- Purchase of goods with VAT

  Purchases A/c   Dr.

  VAT Paid A/c   Dr.

       To Cash/ Bank/ Creditors A/c

- Sale of goods and VAT collected

  Cash/ Bank/ Debtors A/c   Dr.

       To Sales A/c

       To VAT Collected A/c

- Adjustment between VAT collected and paid

  VAT Collected A/c   Dr.   (adjustment)

       To VAT Paid A/c

- VAT paid

  VAT Collected A/c   Dr.

       To Cash/ Bank A/c