

## **21. JOURNALISING AMERICAN WAY**

The American accountants also make use of double entry system. But their procedure of recording business transactions in the general journal is different. They classify various accounts into five categories, namely : (i) **Assets Accounts** i.e., the accounts of debtors, properties etc. (ii) **Liabilities Accounts** i.e. the accounts of creditors, lenders etc. (iii) **Capital Account** i.e., the account of owner. (iv) **Accounts of Expenses and loss items.** (v) **Accounts of income and gain items.** The application of debit-credit rules to the foregoing classification of accounts in five categories is as follows :

**(i) For Assets Accounts**

Debit : Increase in an asset item  
Credit : Decrease in an asset item

**(ii) For Liabilities (or Creditors' Equities) Accounts**

Debit : Decrease in liabilities items  
Credit : Increase in liabilities items

**(iii) For Capital (or Owners' Equity Account)**

Debit : Decrease in Capital  
Credit : Increase in Capital

**(iv) For Expenses and Losses Accounts**

Debit : Increase in an expense or loss item  
Credit : Decrease in an expense or loss item

## (v) For Incomes and Gains Accounts

Debit : Decrease in an income or a gain item

Credit : Increase in an income or a gain item.

**Note:** It must be kept in mind that whether we follow conventional rules with regard to personal, real and nominal accounts or American procedure in terms of increases or decreases, the journal entry is the same. Moreover increase or decrease is in terms of money amounts.

**Illustration 1 (Analysis of Business Transactions)**

Taking the transactions of Sai General Stores, given under the heading Analysis of Business transaction above the journal entries are given below:

**Sai General Stores  
General Journal**

Serial No.	Particulars (Accounts & Explanation)	L.F.	Debit Amount (₹)	Credit Amount (₹)
1.	Cash Account Dr. To Shweta's Capital Account (Being capital introduced by the owner in cash)		10,00,000	10,00,000
2.	Bank Account Dr. To Cash Account (Being cash deposited with Dena Bank)		2,50,000	2,50,000
3.	Purchases Account Dr. To Cash Account (Being goods bought for cash)		2,20,000	2,20,000
4.	Purchases Account Dr. To Hari Chand's Account (Being goods bought on credit from Shri Hari Chand)		1,10,000	1,10,000
5.	Office Furniture Account Dr. To Goldage & Co. Account (Being furniture bought on credit)		75,000	75,000
6.	Hira Lal's Account Dr. To Sales Account		1,25,000	1,25,000



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	(Being goods sold to Hira Lal on credit)			
7.	Building Account To Cash Account (Being Building bought for cash)	Dr.	5,25,000	5,25,000
8.	Purchases Account To Cash Account (Being goods bought from Arun Udyog for cash)	Dr.	1,50,000	1,50,000
9.	Cash Account To Rent Account (Being rent received for letting out a portion of the building)	Dr.	50,000	50,000
10.	Cash Account To Sales Account (Being goods sold for cash to Shyamji)	Dr.	1,50,000	1,50,000
11.	No Entry			
12.	Salaries Account To Cash Account (Being salary paid to the manager)	Dr.	15,000	15,000
13.	Cash Account To Commission Account (Being commission received in cash from Kishan Chand)	Dr.	5,000	5,000
14.	Investments Account To Cash Account (Being the purchase of shares in DCM Ltd.)	Dr.	45,000	45,000
15.	Insurance Account To Bank Account (Being premium on fire insurance of the business paid by cheque)	Dr.	20,000	20,000
16.	Drawings Account To Cash Account	Dr.	9,000	9,000

(Being premium on life insurance of the owner paid in cash)			
17.	Advertisement Account Dr. To Cash Account	20,000	20,000
(Being payment made for an insertion in the Times of India)			
18.	Bank Account Dr. To Dividends Account	16,000	16,000
(Being dividends collected by bank on behalf of the firm)			
19.	Hari Chand's Account Dr. To Cash Account	70,000	70,000
(Being payment made to Shri Hari Chand for goods bought on credit previously)			
20.	Cash Account Dr. To Bank Account	55,000	55,000
(Being cash withdrawn from the bank for office use)			
21.	Cash Account Dr. To Bank Loan Account	65,000	65,000
(Being money borrowed from the bank)			
22.	Bills Receivable Account Dr. To Hira Lal's Account	40,000	40,000
(Being a bill of exchange received from Shri Hira Lal)			
23.	Hari Chand's Account Dr. To Bills Payable Account	20,000	20,000
(Being a bill accepted for Shri Hari Chand)			
24.	(i) Bank Account Dr. To Mohan Lal's Account	1,250	1,250
	(ii) Mohan Lal's Account Dr. To Cash Account	1,250	1,250
(Being cash paid to Mohan Lal in lieu of cheque)			
25.	Repairs Account Dr. To Cash Account	5,000	5,000



	(Being payment made for the repairs of furniture)			
26.	Rachna' Loan Account To Cash Account (Being loan given to Rachna)	Dr.	1,60,000	1,60,000
27.	Hari Chand' Account To Purchases Returns Account (Being goods returned to Hari Chand)	Dr.	10,000	10,000
28.	Bank Account To Cash Account (Being opening of a bank account for ₹ 20,000)	Dr.	20,000	20,000
29.	Renu' Account To Commission Account (Being commission earned for service rendered)	Dr.	5,000	5,000
30.	Rachna' Loan Account To Accrued interest Account (Being interest accrued on the amount advanced to Rachna)	Dr.	16,000	16,000
31.	Drawings Account To Cash Account (Being income tax paid on behalf of the owner, Shweta)	Dr.	1,50,000	1,50,000
32.	Discount Allowed Account To Hira Lal' Account (Being discount allowed to Hira Lal for prompt payment by customer)	Dr.	2,500	2,500
33.	Hari Chand' Account To Discount Received Account (Being discount earned for prompt payment to Hari Chand, the supplier of Goods)	Dr.	1,500	1,500
34.	Furniture Account To Cash Account (Being payment of railway	Dr.	1,200	1,200

	freight treated as a cost of furniture)			
35.	Sales Returns Account To Hira Lal' Accounts (Being goods returned by Hira Lal)	Dr.	4,500	4,500
36.	Cash Account To Sales Account (Being cash sales made)	Dr.	15,000	15,000
37.	Bank Charges Account To Bank Account (Being bank charges by the Banker)	Dr.	250	250

## 22. TYPES OF ENTRIES

Entries in the general journal may be divided into two classes : (i) Simple Entry. (ii) Compound Entry. A simple entry is one in which only two accounts are affected *viz.*, one account to be debited and another to be credited with an equal amount. On the other hand, whenever a journal entry involves more than just two accounts, it is called compound entry. In a compound entry, there may be: (a) Several accounts to be debited and only one account to be credited; or (b) One account to be debited and several other accounts to be credited; or (c) Several accounts to be debited and several other accounts to be credited. Journal entries falling within classes (a) and (b) are generally termed as 'single compound entries' and those in class (c) are generally termed as 'double compound entries'. However in all cases the sum of debit amounts must be equal to the sum of credit amounts.

### EXAMPLES

- (a) **Simple journal entry** : The business firm purchases goods worth ₹ 20,000 from Kamla. The simple journal entry is :

20.... 31 March	Particulars	Debit ₹	Credit ₹
	Purchases Account To Kamla' Account [Being goods bought from Kamla on credit]	20,000	20,000

- (b) **Single compound entry** : When two or more transactions of the same nature (whether accounts to be debited or credited are common) are recorded on the same date, a compound or composite or combined entry is made in place of separate



journal entry for each item. For example, the business enterprise pays rent—₹ 20,000, salaries—₹ 15,000 carriage—₹ 500 and trade expenses—₹ 4,000 on the same day, say, 31 March, the single compound entry would be :

20.... March 31	Particulars	Debit ₹	Credit ₹
	Rent Account		
	Salaries Account Dr.	20,000	
	Carriage Account Dr.	15,000	
	Trade Expenses Account Dr.	500	
	To Cash Account Dr.	4,000	
	(Being expenses paid in cash)		39,500

- (c) **Double compound entry :** As stated above, in this case, a journal entry contains several debit accounts accompanied by several credit accounts. For example, the business enterprise receives a payment of ₹ 50,000 consisting of ₹ 30,000 cash and cheque of ₹ 20,000 in return for sale of goods for ₹ 40,000 and a second hand machine of ₹ 10,000 on 1 January 20.... . The **double compound journal entry** would be :

20....	Particulars	Debit ₹	Credit ₹
Jan. 1	Cash Account		
	Bank Account Dr.	30,000	
	To Sales Account Dr.	20,000	
	To Machine Account		40,000
	(Sale of goods and a second hand machine for cash)		10,000

### 23. OPENING ENTRY

At the beginning of each accounting period, the business entity has to record transactions in a new set of books of account. The accounts with the balances in the previous year, consisting of Real and Personal Accounts are entered in the new books of account with the help of an **Opening Entry**. All the assets accounts are debited and all the liabilities accounts are credited. The difference between assets and liabilities is to be credited to capital account as shown below :

Date	Particulars	Debit	Credit
April 1	Cash Account		
	Machinery Account Dr.	5,000	
	Furniture Account Dr.	70,000	
	Stock Account Dr.	10,000	
	Debtors Account Dr.	30,000	
		50,000	



Accounting Process - I : Journalising and Ledger

60 paise in ₹ 1 = 60 paise  
60 paise in 2000 = 60 × 2000  
= 120,000 paise  
= ₹ 1200

To Bills Payable Account	2,000
To Creditors Account	22,000
To Capital Account	1,41,000
(Being recording of the opening balances of assets, liabilities and capital)	

## Illustration 2 (Journal Entries)

Journalise the following :

- Goods worth ₹ 4,000 were given as charity out of business
- Received cash ₹ 6,000 of a bad debt written off last year for Shri Om Parkash
- Interest charged on drawings @ 5% when the total drawings were ₹ 50,000
- Received ₹ 1,975 from Hari Krishan in full settlement of his account of ₹ 2,000
- Received a first and final dividend of 60 paise in a rupee from the official receiver of Mr. Ravi Shankar who owed us ₹ 2,000.

**Solution :**

### Journal Entries

Date	Particulars	Debit ₹	Credit ₹
(i)	Charity account Dr. To Purchases Account (Being goods given as charity for business)	4,000	4,000
(ii)	Cash Account Dr. To Bad-Debts Recovered Account (Cash received from Shri Om Parkash for his debt written off earlier as bad debt.)	6,000	6,000
(iii)	Drawings/Capital Account Dr. To Interest on Drawings Account (Interest on drawings charged to the personal account of the proprietor)	2,500	2,500
(iv)	Cash Account Dr. Discount Allowed Account Dr. To Hari Kishan Account (Being Cash ₹ 1,975 received from Hari Kishan in full settlement of his account; the balance ₹ 25 debited to discount allowed account)	1,975 25	2,000



(v)	Cash Account	Dr.	1,200	
	Bad Debts Account	Dr.	800	
	To Ravi Shankar' Account			2,000
	(Being the cash ₹ 1,200 received from Ravi Shankar on his insolvency and the balance, being loss, transferred to bad debts account)			