SAI GROUP TUITIONS
F.Y.J.C
BOOK- KEEPING AND ACCOUNTANCY

4. JOURNAL AND LEDGER

Journal is derived from the French word 'Jour' which means a day. Journal therefore means a daily record.

A journal is a book of original entry. It is a book where the entries are first recorded. All the business transactions are recorded in this book in a chronological order. A transaction is first recorded in journal and subsequently transferred into ledger. Recording of transaction in a journal is called journal entries or journalising and recording in the ledger book is called Posting to ledger accounts. The process of transferring entries from Journal into ledger is called 'Posting'.

Journal is used for the purpose of maintaining a continuous and permanent record of transactions in order of their occurrence. Whereas the ledger serves to maintain a classified record of transactions. For each transaction only one entry is made in the journal whereas the same is transferred to two different accounts in the ledger.

Specimen of Journal

Journal of ....

Date	Particulars	L.F.	Debit Rs.	Credit Rs
	............a/c Dr. To ....a/c		xxx	 xxx

Date:

The date of the transaction is written in this column.

Particulars:

The particulars column is the most important column. The account to be debited is written on the first line with the abbreviation "Dr". The account to be credited is written on the second line, preceded by the word "To". On the next line the brief description about the entry called as narration is written into brackets.

L.F.:

L.F. stands for ledger folio. Folio means the page number. In this column the page number of the ledger on which accounts appear is written.

Debit:

The amount of the account debited is written in this column.

Credit:

The amount of the account credited is written in this column.

Points to be remembered while passing journal entries:

1) While writing the name of a person or real account or nominal account the word "a/c" should be added after the name of the account.
2) After journalising the transaction, the two columns should be totaled. The total of the debit and credit column. The purpose is to check arithmetical accuracy.
3) When two or more transaction of the same nature occur, a combined entry may be passed.
4) The term, 'Purchase A/c' should be used when goods are purchased. The term "Sales A/c" should be used when goods are sold out. Goods returned to suppliers are called Returns outwards or Purchase Returns. Goods returned by customers are called Returns Inward or Sales Return.
5) When it is not clearly stated in the problem whether the transaction is on a cash basis or on a credit basis, it should be considered on a cash basis. When the name of the party is given, and there is no mention of cash paid/ received it should be considered as a credit transaction.
6) Whenever expenses are paid in cash, the expenses concerned should be debited and the cash A/c- credited, the person's account should not be debited.
7) Whenever income is received in cash, the income account concerned should be credited and a cash account debited. The person's account should not be credited.
8) When goods are purchased for cash from a party, the accounts affected will be i) Purchase A/c, ii) Cash A/c.
9) When goods are sold for cash to a party, the accounts affected will be i) Cash A/c, ii) Sales A/c.
10) When goods are purchased on credit, the accounts affected will be i) Purchase A/c and ii) Party's A/c.
11) When goods are sold on credit, the accounts affected will be (i) Party's A/c (ii) Sales A/c.
12) When assets are purchased from a party on credit, the Asset A/c should be debited. The purchases A/c should not be debited.
13) When assets are sold to a party, the sales A/c are not affected. The asset account concerned is affected.
14) Whenever any amount is paid for repairing any asset, the asset account is not affected. The account affected will be the repairs account and the cash account.
15) For the purpose of recording transactions it should be assumed that a proprietor is different from the business.
16) The payment of any personal expenses of the proprietor, such as an insurance premium, a medical bill, income tax, a club bill, amounts to Drawings. The entry is made in the Drawings account.
17) Any expenses incurred on the purchase of an asset affect asset account and cash account.

Special Rules of Journal Entry:

1) Entry for commencement of business:

Cash A/c	Dr.
Goods A/c	Dr.
Assets A/c	Dr.
To Proprietor's A/c.	

2) Entry for Drawings :

Drawings A/c	Dr.
To Cash A/c	
To Assets A/c	
To Goods A/c	

3) Entry of purchases :

Purchases A/c	Dr.
Assets A/c	Dr.
To Cash /Bank A/c	
Or To Supplier's A/c	

4) Entry for purchases return :

Cash A/c	Dr.
Or Supplier's A/c	Dr.
To purchase return A/c	

5) Entry for Sales:

Cash/Bank A/c	Dr.
Or Customer's A/c	Dr.
To Sales A/c	
To Assets A/c	

6) Entry for Sales Return:

Sales Return A/c	Dr.
To Cash A/c	
To Customer's A/c	

Or

Purchase A/c .... Dr.
Sales A/c .... Cr.
Purchase Returns...... Cr.
Sales Returns A/c ..... Dr.

7) Entry for Income received.

Cash A/c	Dr.
To Income A/c	

(The person's a/c from whom the income received is not to be recorded)

8)

i) Entry for expenses paid.

Expense A/c Dr.
To Cash A/c (Business)
(The Persons a/c to whom the money is paid is not to be recorded)

ii) Drawing A/c Dr.
To Cash A/c (Personal)
(When personal or domestic expenses are paid off)

iii) Assets A/c Dr.
To Cash A/c (Asset)
(Entry for expenses incurred on new asset purchased)

iv) Debtor A/c Dr.
To Cash A/c
(Entry for expenses paid on behalf of other person)

v) Expenses A/c Dr.
To Creditor's A/c
(Entry for our expenses paid by other person)

vi) Expenses A/c Dr.
To Outstanding exp.
(When the expenses are not paid at the end of the year)

vii) Entry for prepaid expenses:

Prepaid expenses A/c Dr.
To expenses A/c
(Entry for adjusting the expenses paid during this year for the next year)

9) Entry for goods lost by fire/theft/Accident/Natural Calamities:

i) Uninsured:

Loss by fire/Accident/Theft Dr.(full amount)
To Goods A/c (full amount)

ii) Insured:

Loss by fire/Accident/Theft Dr.(Difference)
Insurance claim A/c Dr.(Claim admitted)
To Goods A/c (full amount)

10) Goods taken for personal use:

Drawings A/c Dr.
To Goods A/c

11) <u>Goods given as free Samples:</u>
Advertisement A/c Dr.
To Goods A/c

12) <u>Insurance premium paid for any business assets OR Property :</u>
Insurance Premium A/c Dr.
To Cash A/c

13) <u>Life Insurance Premium Paid:</u>
Drawing A/c Dr.
To Cash A/c

14) Purchase of Investment:
Investment A/c Dr.
To Cash A/c
(Brokerage if any paid on the purchase of investment will be added to the cost price)

15) <u>Sale of Investment</u>:
Cash A/c Dr.
To Investment A/c
(Brokerage if any paid on the Sale of Investment will be deducted from the selling price)

16) <u>Entry for bad debts</u>:
Bad Debts A/c Dr.
To Debtors (Party)
(When a person becomes insolvent and amount due from him is irrecoverable)

17) <u>Entry for bad debts recovered</u>:-
Cash A/c Dr.
To Bad debts recovered A/c-
(Entry for amount received from a person whose A/c is written off earlier as bad)

18) <u>Entry for interest due on loan</u>:
Interest on Loan A/c Dr.
To Loan A/c
(Entry for interest, which becomes due on loan but the same is not paid)

19) <u>Entry for Purchase of any Cattles or animals</u>:
Live Stock A/c Dr.
To Cash A/c

<u>COMBINE ENTRIES</u>

When one debit has a corresponding two or more credits or when one credit has corresponding two or more debits, the entry is called combine entry.

DISCOUNT

Discount is an allowance in price given by a seller to the buyer. It is the concession in debt given by a creditor to Debtor. It induces the debtor to make prompt payment. It also reduces the loss of bad debts.

Discount is classified as follows:

(1) Trade Discount and (2) Cash Discount.

1) Trade Discount :

Trade Discount is an allowance given by a wholesaler to a retailer, in order that the retailer should earn some profit. Trade Discount is always deducted from the invoice-price. Hence, it never appears in the books of accounts. This discount can be given in cash as well as credit transaction. The amount on which Trade Discount is calculated is called Gross amount and after deducting Trade Discount the amount arrived at is called the net amount. The Gross amount and Trade Discount is never recorded in the books but the net amount is always recorded.

2) Cash Discount :

Cash Discount is given by a seller to the buyer or creditor to a debtor. It induces a person to make prompt payment. It is given only in cash transaction and is calculated on the net amount. From the net amount when Cash Discount is deducted the balance amount is either received or paid.

When cash is received discount is allowed and when cash is paid discount is received. Discount allowed is a loss and discount received is a gain. Loss and gain are both nominal accounts. Hence, discount is nominal account.

Discount allowed being a loss is debited and discount received being a gain is credited. For accounting purpose Cash a/c and Discount a/c are given similar effects i.e. if cash a/c is debited the discount a/c is also debited and if the Cash a/c is credited the discount a/c is also credited.

a) Cash a/c Dr.
Discount a/c Dr.
To Sales/party a/c

b) Purchase/ Party a/c Dr.
To Cash a/c
To Discount a/c