

FINANCIAL ACCOUNTING - JOURNAL

“The process of recording a transaction in a journal is called journalizing the transactions.”

---Meigs and Meigs and Johnson

Journal is a book that is maintained on a daily basis for recording all the financial entries of the day. Passing the entries is called journal entry. Journal entries are passed according to rules of debit and credit of double entry system.

1	2	3	4	5
Date	Particulars	L.F.	Amount	
			Debit	Credit
xx-xx-xx A/c	Dr. xx	xxxx	
	To A/c	xx		xxxx
 Narration.....			

Column 1: It represents the date of transaction.

Column 2: Line 1 represents the name of account to be debited.

Line 2 represents the name of account to be credited.

Line 3 for narration of transaction.

Column 3: Ledger Folio *L. F.* represents the page number of ledger account on which we post these entries.

Column 4 : Amounts to be debited.

Column 5 : Amounts to be credited.

Notes

- If there are multiple transactions in a day, the total amount of all the transaction through a single journal entry may pass with total amount.
- If debit or credit entry is same and the corresponding entry is different, we may post a combined entry for the same. It is called '**compound entry**' regardless of how many debit or credit entries are contained in compound journal entry. For example,

1	2	3	4	5
Date	Particulars	L.F.	Amount	
			Debit	Credit
Xxxx A/c	Dr. xx	xx	
 A/c	Dr. xx	xx	
	To A/c	xx		xxxx

Narration.

Analysis and Treatment of Transactions

Let us go through the nature of transactions and their treatment in our books of accounts. The following accounting entries are commonly used in every business and they come under the category of routine journal entries.

S.No.	Transaction Nature	Analysis and Treatment								
1	Capital	<p>Capital account is personal account. Whenever the owner introduces capital in the form of cash, goods or assets, the entry will be as here under:</p> <table><tr><td>Cash/Goods/Asset A/c</td><td>Dr.</td><td>xx</td><td></td></tr><tr><td>To Capital A/c</td><td></td><td></td><td>xx</td></tr></table> <p><i>Being cash/goods/assets introduced as capital</i></p>	Cash/Goods/Asset A/c	Dr.	xx		To Capital A/c			xx
Cash/Goods/Asset A/c	Dr.	xx								
To Capital A/c			xx							
2	Drawing Account	<p>Drawing account is also a capital account. Whenever the owner of the business withdraws money for his personal use, it is called drawing. The balance of Drawing account is transferred to the capital account at the end of the accounting year.</p> <table><tr><td>Drawing A/c</td><td>Dr.</td><td>xx</td><td></td></tr><tr><td>To Cash A/c</td><td></td><td></td><td>xx</td></tr></table> <p><i>Being withdrawal of cash for personal use</i></p>	Drawing A/c	Dr.	xx		To Cash A/c			xx
Drawing A/c	Dr.	xx								
To Cash A/c			xx							
3	Trade Discount	<p>Trade discount is allowed by seller to buyer directly on their sales invoice. Buyer in this case are usually whole-sellers, traders or manufacturers, who further sell this material to their customers or use the material in their manufacturing process. Rate of discount may vary from customer to customer.</p> <p>Treatment - No need to pass any journal entry in this case. The sale is booked on the net of trade discount. Similarly, if we</p>								

get trade discount from our supplier, we book our purchase at the net of trade discount.

4 Cash Discount

Cash discount is also allowed by seller to his buyer; still it does not come in the category of trade discount. Cash discount is a sort of scheme to inspire their debtors to release their due payment in time. For example, a seller may allow 5% cash discount, if he gets payment within a week against the time limit of 45 days.

Treatment - If A allowed a discount of 5% to B, then

In the books of A:

Cash A/c	Dr.	xx	
Discount A/c	Dr.	xx	
To B A/c			xxxx

Being 5

In the books of B:

A A/c	Dr.	xxxx	
To Discount A/c			xx
To B A/c			xx

Being payment of Rs xx made to A and getting a discount of 5

Note - In the above case, discount is a loss to A and income to B.

5 Bad Debts

Part of credit sale which is unrecovered from debtors due to some reason like insolvency, dishonesty, etc. are called bad debts of the company. Bad debts are loss to the company.

Treatment:

1 To book bad debts

Bad Debts A/c	Dr.	xx	
To Debtor A/c			xx

Being loss on account of bad debts

2 To recover bad debts

Cash A/c	Dr.	xx	
To bad debts recovery A/c			xx

Being recovery of bad debts

6 Expenses on purchase of Goods

There are a few types of expenses incurred on the purchases of goods like inward freight, octroi, cartage, unloading charges, etc.

Treatment:

Inward freight/Cartage/Octroi A/c	Dr.	xx	
To Cash A/c			xx

Being freight charges paid on purchase of goods

7 Expenses on Sale of Goods

Expenses are also incurred while selling products to customers such as freight outward, insurance charges, etc.

Treatment:

Freight outward/Insurance Expenses A/c	Dr.	xx	
To Cash A/c			xx

Being freight charges paid on sale of goods

8 Expenses on Purchase of Assets

Sometimes we need to pay expenses on the purchase of fixed assets like transportation charges, installation charges, etc.

Treatment:

Expenses incurred on purchases of fixed asset are added in the value of fixed assets and could not be treated like expenses on purchases of goods:

Fixed Asset A/c	Dr.	xx	
To Cash A/c			xx

Expenses incurred on purchase of asset

9 Payment of Expenses

Treatment:

Expenses A/c	Dr.	xx	
To Cash A/c			xx

Being expenses incurred

10 Outstanding Expenses

Sometimes expenses remain outstanding at the end of the financial year, but due to the accrual basis of accounting, we need to book those expenses which are due for payment and to be paid in the next accounting year. For example, the salary due on the last day of the accounting year to be paid in the next year.

Treatment:

Salary A/c	Dr.	xx
To salary outstanding A/c		xx

Being salary for the month of due

11 Prepaid Expenses

Sometimes we pay expenses in advance such as insurance paid three months before the closing of the accounting year. Since insurance is usually paid for the whole year, in this case, the insurance for nine months is treated as prepaid insurance. Similarly, rent for the first month of next accounting year may be paid in advance.

Treatment:

Prepaid Expenses A/c	Dr.	xx
To Expenses/Cash A/c		xx

Being prepaid expenses for month paid

Note: Expenses account is replaced with the respective head of expense account.

12 Income Received

Treatment:

Cash/Debtor A/c	Dr.	xx
To Income A/c		xx

Being Income received in cash

Note: Income account will be replaced with the respective head of Income account.

13 Banking Transactions

1 Cheque deposited in bank

Cheque received from party is deposited in bank, Cheque direct deposit by party in our bank account, payment made by party through NEFT or RTGS, or cash directly deposited by party in our bank account. The entry remains same in all the above cases.

Bank A/c	Dr.	xx
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To Debtor A/c xx

2 Payment made to party through cheque

Cheque issued to party or directly deposited in his bank account, or payment made through either by NEFT, RTGS, or cash directly deposited in his bank account. Entry remains same in all the above cases except in the case of cash deposited in his bank account.

Debtor A/c	Dr. xx	
To Bank A/c		xx

Being payment made through.

If we deposit cash in his bank account, entry will be as follows:

Debtor A/c	Dr. xx	
To Cash A/c		xx

Being payment made through.

3 Cash withdrawn for office Expenses

Cash A/c	Dr. xx	
To Bank A/c		xx

Being cash withdrawn from bank for office use

4 Cash deposited with Bank

Cash A/c	Dr. xx	
To Cash A/c		xx

Being cash withdrawn from bank for office use

Note: The above entries No. 3 & 4 are called '**contra**' entries.

5 Bank charge debited by bank

Sometimes banks debit from our account against some charges for service provided by them. For example, cheque book issuing charges, demand draft issuing charges, Bank interest, etc.

Bank Commission/Charges A/c	Dr. xx	
To bank A/c		xx

Bankcharges/commission/interestdebitedbybank

14 Interest on Capital

Interest on capital, introduced by sole proprietor or partners of the firm: This entry is passed on the last date of the accounting year as follows:

Interest on capital A/c	Dr.	xx	
To Capital A/c			xx

Beinginterest@. oncapitalprovide

15 Payment on behalf of others

Some expenses may be on behalf of our debtors or creditors.

Debtors/Creditors A/c	Dr.	xx	
To Cash/Expenses A/c			xx

Beingexpensesdebitedtoparty, paidonhisbehalf

16 Advance received against supply of goods/services

Sometimes the customers pay an advance amount for the supply of goods/services, which need to be adjusted later:

Bank/Cash A/c	Dr.	xx	
To Advance from Customers A/c			xx

Beingadvancereceivedfromxxxxxxxxx

17 Advance paid against supply of goods/services

As above, we may also pay an advance amount to our supplier against supply of goods/services:

Advance against supply of goods A/c	Dr.	xx	
To Cash/Bank A/c			xx

Beingadvancepaidagainsts supplyofgoods/services