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5

JOURNAL

In the preceeding lessons you have learnt about various business transactions and Book keeping i.e. recording these transactions in the books of accounts in a systematic manner. Curosity may arise in your mind that what are these books? Why businessman keeps many books? How does he records various transactions in these books? You have learnt about the double entry system of maintaining accounts i.e. rules of debit and credit in relation to various accounts. A book that is prepared by every businessman, small or big. is a book in which business transactions are recorded datewise and in the order in which these transactions take place is known as journal. In this lesson you will learn about its meaning, objectives and its preparation.

OBJECTIVES

After studying this lesson, you will be able to :

- explain the meaning of journal;
- draw format of Journal;
- explain the process of journalising;
- journalise the simple and compound transactions;
- classify journal into Special Journals and Journal Proper.

5.1 JOURNAL : MEANING AND FORMAT

Journal is a book of accounts in which all day to day business transactions are recorded in a chronological order i.e. in the order of their occurence. Transactions when recorded in a Journal are known as entries. It is the book in which transactions are recorded for the first time. Journal is also known as 'Book of Original Record' or 'Book of Primary Entry'.

Notes

Business transactions of financial nature are classified into various categories of accounts such as assets, liabilities, capital, revenue and expenses. These are debited or credited according to the rules of debit and credit, applicable to the specific accounts. Every business transaction affects two accounts. Applying the principle of double entry, one account is debited and the other account is credited. Every transaction can be recorded in journal. This process of recording transactions in the journal is' known as 'Journalising'.

In small business houses generally one Journal Book is maintained in which all the transactions are recorded. But in case of big business houses as the transactions are quite large in number, therefore journal is divided into various types of books called Special Journals in which transactions are recorded depending upon the nature of transaction i.e. all credit sales in Sales Book, all cash transactions in Cash Book and so on.

Format of Journal

Every page of Journal has the following format. It is a columnar book. Each column is given a name written on its top. Format of journal is given below:

Journal

Date	*Particulars*	*Ledger Folio*	*Dr. Amount (₹)*	*Cr. Amount (₹)*
(1)	(2)	(3)	(4)	(5)

Column wise details of journal is as :

1. Date

In this column, we record the date of the transactions with its month and accounting year. We write year only once at the top and need not repeat it with every date.

Example :

Date

2014

April 15

Notes

2. Particulars

The accounts affected by a transaction i.e the accounts which have to be debited or credited are recorded in this column. It is recorded in the following way :

In the first line, the account which has to be debited is written and then the short form of Debit i.e. Dr. is written against that account's name in the extreme right of the same column.

In the second line after leaving some space from the left of the entry in the first line, the account which has to be credited is written starting with preposition 'To'. Then in the third line, Narration for that entry which explains the transaction, the affected accounts of which are entered, is written within Brackets. Narration should be short, complete and clear. After every journal entry, horizontal line is drawn in the particulars column to separate one entry from the other.

Example : Rent paid in cash on 1st April, 2014

Date	Particulars
2014	Rent A/c .... Dr
April 1	To Cash A/c ....
	(Rent paid in cash)

3. Ledger Folio

The transaction entered in a Journal is posted to the various related accounts in the 'ledger' (which is explained in another lesson). In ledger-folio column we enter the page-number where the account pertaining to the entry is opened and posting from the Journal is made.

4. Dr. Amount

In this column, the amount to be debited is written against the same line in which the debited account is written.

5. Cr. Amount

In this column, the amount to be credited. is written against the same line in which the credited account is written.

Notes

Example : Paid ₹ 4,000 rent on 1st April 2014.

Journal

Date	*Particulars*	*L.F.*	*Dr. Amount (₹)*	*Cr. Amount (₹)*
2014 April 1	Rent A/c .... Dr		4000	
	To Cash A/c			4000
	(Rent paid in Cash)			

At the end of each page, both the Dr. and Cr. columns are totalled up. The total of both these columns should be equal as the same amount is entered in the debit as well as in the credit columns. The totals are carried forward to the next page with the words 'total carried forward (c/f) and then at the top of the next page in Particulars column, we write totals brought forward (b/f) and the amount of totals is written in the respective amount columns.

INTEXT QUESTIONS 5.1

I. What is journal? Write in your own words.

....

....

II. Complete the following sentences with the appropr:ate word/words:

i. Journalising is the process of entering transactions in

ii. Another name for Journal is ....

iii. Transactions, when recorded in Journal, are known as ....

iv. The explanation of a Journal entry is known as ....

v. In a Journal entry preposition .... is used before the name of the account to be credited

5.2 PROCESS OF JOURNALISING

Following steps are taken for the preparation of a journal :

- **Identify the Accounts :** First of all, the affected accounts of an accounting transaction are identified. For example, if the transaction of "goods worth ₹10000

Notes

are purchased for Cash", then 'Purchases' A/c and 'Cash' A/c are the two affected accounts.

- **Recognise the type of Accounts :** Next we determine the type of the affected accounts e.g. in the above case, 'Purchases A/c and Cash A/c are expense and asset account respectively.
- **Apply the Rules of Debit and Credit :** Then the rules of 'debit' and 'credit' are applied to the affected accounts. You are aware of these rules. However, for the revision purposes, these are given below :

  (a) Assets and Expenses Accounts are debited if there is an increase and credited if there is decrease :

  (b) Liability, Capital and Revenue Accounts are debited if there is decrease and credited if there is increase.

In the example given when goods are purchased, as the assets are increasing, therefore, Purchases Account will be debited and as payment is made in cash, assets are decreasing, Cash Account will be credited.

Now, the journal entry will be made in the Journal alongwith a brief explanation i.e. narration. The corresponding amounts will be written in the debit and credit columns. After completing one entry, an horizontal line is drawn before entry for the next transaction is made in the journal.

The transaction, given above in the example, is journalised in the following manner:

Date	*Particulars*	*L.F.*	*Dr. Amount (₹)*	*Cr. Amount (₹)*
	Purchases A/c .... Dr		10000	
	To Cash A/c			10000
	(Goods purchased for Cash)			

Illustration 1

Analyse in Tabular form and Enter the following transactions in the Journal of Bhagwat and Sons

2014		₹
January 1	Tarun started business with cash	1,00,000
January 2	Goods purchased for cash	20,000
January 4	Machinery Purchased from Vibhu	30,000


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January 6	Rent paid in cash	10,000
January 8	Goods purchased on credit from Anil	25,000
January 10	Goods sold for cash	40,000
January 15	Goods sold on credit to Gurmeet	30,000
January 18	Salaries paid.	12,000
January 20	Cash withdrawn for personal use	5,000

Solution

As explained above, before making the journal entries, it is very essential to determine the kind of accounts to be debited or credited. This is shown in the Table :

Tabular Analysis of Business Transactions

Date	*Transaction*	*Affected Accounts*	*Kind of Accounts*	*Increaseor Decrease in Accounts*	*Debited Accounts Dr.*	*Credited Accounts Cr.*
2014 Jan.1	Cash received from the owner Tarun	Cash Capital	Asset Capital	Increase Increase	Cash A/c	Capital A/c
Jan. 2	Goods purcha-ses for cash	Goods Cash	Asset Asset	Increase Decrease	Purchases A/c	Cash A/c
Jan. 4	Machinery purchased on Credit from Vibhu	Machinery Vibhu	Asset Liability	Increase Increase	Machinery A/c	Vibhu A/c
Jan. 6	Rent paid in cash	Rent Cash	Expense Asset	Increase Decrease	Rent A/c	Cash A/c
Jan. 8	Goods on purchased Credit from Anil	Purchases Anil (creditor)	Asset Liability	Increase Increase	Purchases A/c	Anil A/c
Jan.10	Goods sold for cash Cash	Cash sales	Asset Revenue	Increase Increase	Cash A/c	Sales A/c
Jan.15	Credit sales to Gurmeet	Gurmeet (Debtor) Sales	Asset Revenue	Increase Increase	Gurmeet	Sales A/c
Jan.18	Salaries paid in cash	Salaries Cash	Expense Asset	Increase Decrease	Salaries A/c	Cash A/c

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Jan.20	Cash withdrawn for personal use	Drawings Cash	Capital Asset	Decrease Decrease	Drawings A/c	Cash A/c

On the basis of the above table, following entries can be made in the Journal

Journal of Tarun

Date	*Particulars*		*L.F.*	*Dr. Amount* ₹	*Cr. Amount* ₹
2014					
Jan. 1	Cash A/c	Dr.		1,00,000	
	To Tarun Capital A/c				1,00,000
	(Capital brought in by Tarun)				
Jan. 2	Purchases A/c	Dr.		20,000	
	To Cash A/c				20,000
	(Goods purchased for Cash)				
Jan. 4	Machinery A/c	Dr.		30,000	
	To Vibhu's A/c				30,000
	(Machinery purchased from Vibhu on credit)				
Jan. 6	Rent A/c	Dr.		10,000	
	To cash A/c				10,000
	(Rent paid)				
Jan. 8	Purchases A/c	Dr.		25,000	
	To Anil's A/c				25,000
	(Good purchased on credit)				
Jan.10	Cash A/c	Dr.		40,000	
	To Sales A/c				40,000
	(Goods sold for Cash)				
Jan.15	Gurmeet's A/c	Dr.		30,000	
	To Sales A/c				30,000
	(Goods sold on credit to Gurmeet)				
Jan.18	Salaries A/c	Dr.		12,000	
	To Cash A/c				12,000
	(Salaries paid)				
Jan.20	Drawings A/c	Dr		5,000	
	To Cash A/c				5,000
	(Cash withdrawn by the owner for personal use)				
	Total			**2,72,000**	**2,72,000**

Notes

INTEXT QUESTIONS 5.2

I. Below are given certain transactions. Write the names and kinds of affected accounts in the given columns of debit and credit :

	Transaction	Dr.		Cr	
		Name of A/c	*Type of A/c*	*Name of A/c*	*Type of A/c*
i.	Started business with cash	Cash A/c	Assets	Capital	Capital
ii.	Credit purchases of goods				
iii.	Commission paid by cheque				
iv.	Cash deposited into Bank				
v.	Interest received in cash				
vi.	Furniture purchased from Mukesh				
vii.	Goods sold by Ramesh				

II. Write down the narration for the following Journal entries in the space provided :

(i) Cash A/c Dr.
To sales A/c
( )

(ii) Purchases A/c Dr.
To Vinay's A/c
( )

III. Complete the following journal entries :

(i) Amit's A/c Dr.
To .... A/c
(Goods sold to Amit)

(ii) .... Dr.
To Cash A/c
(Commission paid in Cash)

(iii) Cash A/c Dr.
To .... A/c
(Interest received in Cash)

(iv) Goods A/c Dr
To .... A/c
(Goods purchased from Rohit for Cash)

Notes

5.3 COMPOUND AND ADJUSTING ENTRIES

The journal entries that you have learnt so far are simple and affect two accounts only. There can be entries that affect more than two accounts; such entries are called compound or combined entries.

A simple journal entry contains only one debit and one credit. But if an entry contains more than one debit or credit or both, that entry is known as a compound journal entry. Actually, a compound journal entry is a combination of two or more simple journal entries.

Thus, a compound journal entry can be made in the following three ways:

(i) By debiting one account and crediting more than one account.

(ii) By debiting more than one account and crediting one account.

(iii) By debiting more than one account and also crediting more than one account.

Two simple journal entries are as :

Journal

Date	*Particulars*		*L.F.*	*Dr. Amount ₹*	*Cr. Amount ₹*
2014					
Nov. 30	Salary A/c	Dr.		6,000	
	To Cash A/c				6,000
	(Salary paid in Cash)				
Nov. 30	Rent A/c	Dr.		12,000	
	To Cash A/c				12,000
	(Rent paid in Cash)				

The above two simple entries have been converted into compound Journal entry as under :

2014					
Nov. 30	Salary A/c	Dr.		6,000	
	Rent A/c	Dr.		12,000	
	To Cash A/c				18,000
	(Payment of Salary and Rent in Cash)				

Note : To make the compound entry, it is necessary that the transactions must be of the same date and one account is common.

If you match the first two simple entries with the converted compound entry, you will find that there is no difference between them so far as the accounting effect is concerned. The compound entries save time and space. Such compound entries are made in the following cases:

(a) When two or more transactions occur on the same day.

(b) One aspect i.e. either the Debit account or Credit account is common.

A few more examples of compound entries are :

1. Bad Debts

When a debtor fails to pay the full amount due to him, the unpaid amount is known as bad debts.

For example, A business concern receives ₹ 8000 out of ₹ 10,000 due from Harish. He is unable to pay the balance amount, thus, the remaining amount becomes a bad debts for the business.

The compound entry for this transaction will be :

Bank A/c	Dr.	8,000	
Bad Debts A/c	Dr.	2,000	
To Harish's A/c			10,000
(Receipt of ₹ 8,000 from Harish and remaining due amount of ₹ 2,000 is treated as bad debts)			

2. Discount Allowed and Received

To encourage a customer to pay the amount due before due date, discount is allowed. This is called cash discount. If such discount is received the compound entry will be :

a) Creditor A/c Dr.

To Bank A/c

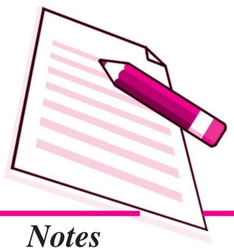
To Discount A/c

b) Similarly, when cash discount is allowed, the journal entry will be

Bank A/c Dr.

Discount A/c Dr.

To customer's (Debtor's) A/c



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Note : When the customer buys goods in bulk or in large quantity some discount may be allowed to him. This is to encourage him to buy more and more. This discount is called Trade Discount. When the bill is prepared for the purchase of goods, the amount of trade discount is deducted from the total amount payable. No entry is made for this type of discount in the journal i.e. it is not recorded in the books of accounts.

Illustration 2

Enter the following transactions in the books of Supriya, the owner of the business:

2014

Jan. 8 Purchased goods worth ₹ 5,000 from Sarita on credit.

Jan. 12 Neha Purchased goods worth ₹ 4,000 from Supriya on credit.

Jan. 18 Received a Cheque from Neha in full settlement of her account ₹3,850. Discount allowed to her ₹150

Jan. 20 Payment made to Sarita ₹ 4,900. Discount allowed by him ₹ 100.

Jan. 22 Purchased goods for cash ₹ 10,000.

Jan. 24 Goods sold to Kavita for ₹ 15,000. Trade discount @ 20% is allowed to her.

Jan. 29 Payment received from Kavita by Cheque.

Solution

The above transactions will be entered in the journal as follows :

Journal of Supriya

Date	*Particulars*	*L.F.*	*Dr. Amount ₹*	*Cr. Amount ₹*
2014				
Jan.8	Purchases A/c Dr.		5,000	
	To Sarita A/c			5,000
	(Goods Purchased on credit from Sarita)			
Jan. 12	Neha's A/c Dr.		4,000	
	To Sales A/c			4,000
	(Goods sold on credit to Neha)			

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Jan. 18	Bank A/c	Dr.		3,850	
	Discount A/c	Dr.		150	
	To Neha's A/c				4,000
	(Payment recived from Neha and discount allowed)				
Jan. 20	Sarita's A/c	Dr.		5,000	
	To Cash A/c				4.900
	To Discount A/c				100
	(Payment made and discount allowed by Sarita)				
Jan. 22	Purchases A/c	Dr.		10,000	
	To Cash A/c				10,000
	(Goods purchased for cash)				
Jan. 24	Kavita A/c	Dr.		12,000	
	To Sales A/c				12,000
	(Sold goods to Kavita on credit of ₹ 15000 less Trade Discount @20%)				
Jan. 29	Bank A/c	Dr.		12,000	
	To Kavita's A/c				12,000
	(Payment received from Kavita by Cheque)				
		Total		**52,000**	**52,000**

Adjusting Entry

To satisfy the principle of matching cost and revenue, amount of every expense and revenue should pertain to the period for which accounts are being prepared. Thus, there can be two situations : (a) Amount has been received or paid which belongs to more than one accounting year (b) amount of expense or of revenue for the current year stands due and not paid. In the above two cases adjustments need to be made. Any journal entry made to adjust these amounts is called adjusting journal entry.

Journal entries made to adjust for outstanding expenses such as rent outstanding, prepaid expenses such as insurance premium paid in advance, accrued income such as rent (income) has become due but not received and income received in advance such as commission has been received though not yet due are examples of adjusting journal entries.

Following are the items for which adjustment is required :

1. Outstanding Expenses

An expense for the current accounting peirod should be debited (as increase in expense is to be debited). It is immaterial whether it is paid in that accounting period or not. In case the same expense is not paid during the year, it becomes outstanding for that particular year. It is the liability of the business for that year and, thus, expense outstanding account will be credited, because liabilities are credited for increase.

For example, if salaries are outstanding for ₹ 5,000 for December 2014 then the entry will be made as follows:

2014	Salaries A/c	Dr.	5,000	
Dec.31	To Salaries outstanding A/c			5,000
	(Salaries remaining unpaid for the month of December)			

2. Prepaid Expenses

This is an expense relating to the next year that has been paid in advance during the current year. Thus, in such a case, this amount should not be treated as an expense for this year. It should be treated as an asset in the current year as the services will be received only in the next year (but the payment has been made in this year). As an increase in asset is debited, so prepaid expense account will also be debited.

If, for example, Insurance is prepaid for 2015 in 2014 for ₹ 3,000 then entry will be made as follows:

2014	Prepaid Insurance A/c	Dr.	3,000
Dec. 14	To Insurance Premium A/c		3,000
	(Insurance paid in advance)		

3. Accrued Income

In case, income has been earned but it has not been recieved till now, it is an accrued income. Accrued Income is an asset, as there will be an increase in the asset, it will be debited.

For example, Rent (receivable) is outstanding for the month of November ₹4,000. The entry in such a case will be:

Accrued Rent A/c	Dr.	4,000	
To Rent A/c			4,000
(Being Rent due but not yet received for the period)			

Note : Here Rent Income A/c has been credited for the increase to be made in the amount of Rent for the period of November, which has to be included in the total Rent Income.

Notes

4. Income Received in Advance

Whenever Income is received in advance during the current year i.e. it is received for the next year, it should not be included in the current year's income. As this income pertains to the next year, it cannot be treated as income in the current year, so it becomes a liability. As there is an increase in the liability, it should be credited.

For example, if Rent is received in advance for the period January and February 2015 in December 2014, ₹ 9,000. Then the entry will be

Rent A/c	Dr.	9,000	
To Rent Received in Advance A/c			9,000
(Rent received in advance for January and February 2015 in the month of December 2014)			

Note : Here Rent Income A/c has been debited as it has to be decreased by ₹ 9,000 being Rent in advance for January and February 2015 which should not be included in the month of December 2014 as the services have not yet been rendered.

Miscellaneous Entries

(a) Depreciation

Depreciation means decline in the value of an asset due to its wear and tear. It is an expense for the business. Increase in expenses and losses are debited, so depreciation is also to be debited. The value of the asset will also be reduced because of depreciation. As decrease in assets is credited, so the same asset account will be credited.

For example, Depreciation on furniture ₹ 3,000 is charged for the year, Journal entry will be :

Depreciation A/c	Dr.	3,000	
To Furniture A/c			3,000
(Depreciation charged on furniture)			

(b) Interest on Capital

Business may allow interest to its proprietor on his/her capital. It is an expense for the business. As the expense is debited for the increase, interest on capital will be debited. The other account involved here is capital account. As Capital is increasing, it will be credited with the amount of interest on capital.

For example, Interest allowed on capital is ₹ 2,500. Thus, the journal entry will be :

Interest on Capital A/c	Dr.	2,500	
To Capital A/c			2,500
(Interest on Capital is allowed)			

(c) Drawings

When the proprietor withdraws some money from the business for his personal or domestic use, it is known as Drawings. Drawings reduce the amount of Capital. As decrease in Capital is debited, drawings will also be debited. As Cash will be decreased as an asset, it will be credited.

For example, Cash withdrawn by the proprietor for his peronal use is ₹ 4,000. So the journal entry will be :

Drawings A/c	Dr.	4,000	
To Cash A/c			4,000
(Drawings made in cash)			

INTEXT QUESTIONS 5.3

I. Fill in the blanks with sutiable word/words:

i. A cominbaiton of two or more simple journal entries is known as ....

ii. Bad debts are .... in the journal, as they are loss to the Business.

iii. In journal, only .... discount is recorded.

iv. No entry is made for .... discount in the Journal.

v. Prepaid Expenses are .... in the journal.

vi. Accrued Income is .... on the journal.

vii. Depreciation reduces the value of an ....

viii. When the proprietor- withdraws money from the business for his personal use, then .... A/c is debited and .... A/c is credited.

II. Complete the following journal entries:

(i) Drawings A/c .... Dr.
To .... A/c
(Money withdrawn from Bank for Personal use)

(ii) Cash A/c .... Dr.
.... Dr.
To Rohit's A/c
(Payment received form Rohit in full and final settlement of his A/c)

(iii) .... A/c Dr.
To Rent A/c
(Rent paid in advance)

(iv) Interest on Capital A/c Dr.
To .... A/c
(Interest allowed on capital)

(v) .... A/c Dr.
To Commission outstanding A/c
(Commission outstanding for December)

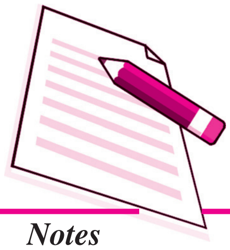
(vi) Cash A/c .... Dr.
.... A/c Dr.
To Satish's A/c
(Part payment of a debt received due to insolvency of Satish)

5.4 CLASSIFICATION OF JOURNAL

Journal is a book in which transactions are recorded in chronological order/ date wise, therefore it will be practically difficult to record if the number of transactions is large. To take the benefit of division of labour, journal should be divided into number of journals.

Journal can be classified into various special journals and Journal proper. Special journals are also known as special purpose books.

Classification of Journal can be explained with the help of the following chart:



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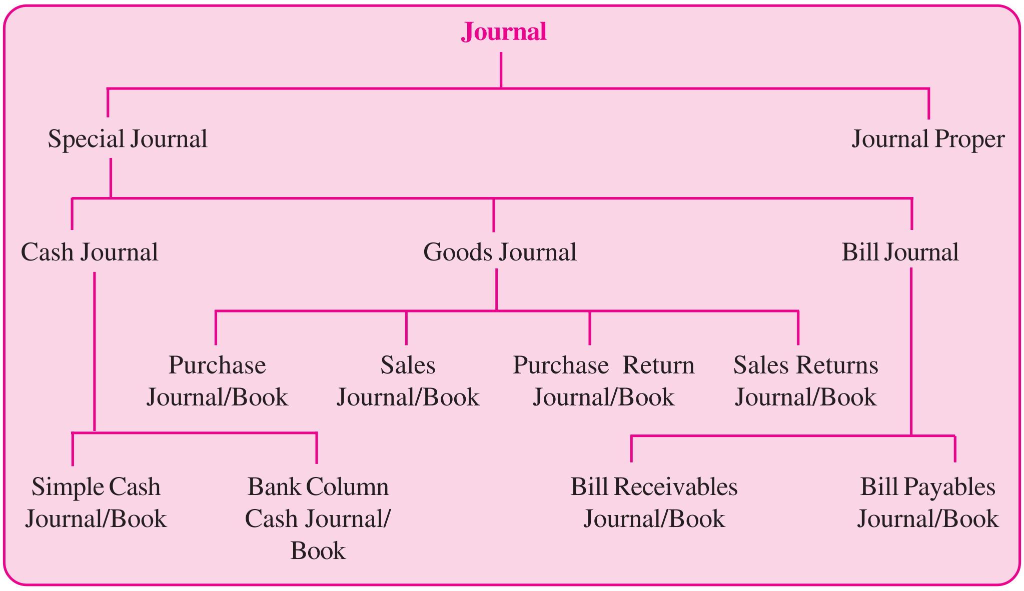

These journals are explained below :

I. Special Journals

Special journals are those journals which are meant for recording all the transactions of a repetitive nature of a particular type. For example, all cash related transactions may be recorded in one book, all credit purchases in another book and so on. These are :

(i) Cash Journal/Cash Book : Cash Journal or Cash Book is meant for recording all cash transactions i.e., all cash-receipts and all cash payments of the 'business. This book helps us to know the balance of Cash in hand at any point of time. It is of two types :

a) **Simple Cash Book :** It records only receipts and payments of cash. It is like an ordinary Cash Account.

b) **Bank Column Cash Book :** This type of Cash Book contains one more column on each side for the Bank transactions. This Book provides additional information about the Bank transactions.

You will learn more details about the Cash Book in the lesson on Cash Book.

ii. Purchases Journal/Purchases Book : This journal is meant for recording all credit purchases of goods only as Cash purchases of goods are recorded in the Cash Book. In this journal, purchases of other things like machinery, typewriter, stationery, etc. are not recorded. Goods means articles meant for trading or the articles in which the business deals.

iii. Sales Journal/Sales Book : This journal is meant for recording all credit sales of goods made by the firm. Cash Sales are recorded in the Cash Book and not in the Sales Book. Credit Sale of items other than the goods dealt in like sale of old furniture, machinery, etc. are not entered in the Sales Journal.

iv. **Purchase Returns or Returns Outward Journal :** Whenever, the goods are not as per the specifications, the buyer may return these goods to the supplier. These returns are entered in a book known as Purchase Returns Book. It is also known as Returns Outward Journal/Book.

v. **Sale Returns or Returns Inward Journal :** Sometimes, when the goods are sold to the customer and they are not satisfied with the goods, they may return these goods to the businessman. Such returns are known as Sales Returns. Just like Purchase Returns, they are also recorded in a separate Book which is known as Sales Returns or Returns Inward Journal/Book.

Note : You will learn more details about these Special journals in the subsequent lessons.

vi. **Bill Receivables Journal/Book :** When goods are sold on credit and the date and period of payment is agreed upon between the seller and the buyer, this is duly signed by both the parties. This written document is called a Bill of exchange. For the seller it is a bill receivable and for the buyer it is a bill payable. Bills Receivable Journal/Book and Bills Payable Journal Book are two journals prepared by a businessman. For example : Pranaya sells goods to Gunakshi on credit for ₹5,000 payable after three months. A document is prepared containing these facts and is duly signed by Pranaya and Gunakshi. For Pranaya, it is a Bills Receivable and she will record this transaction in Bill Receivable Book. For Gunakshi, it is a Bill Payable and she will record the transaction in her Bill Payable Book.

vii. **Bill Payable Journal :** This is a journal in which record of those bills is kept on which the firm has given its acceptance for making payments on later dates.

Note : Bill books are not now in practice.

II. Journal Proper

This journal is meant for recording all such transactions for which no special journal has been maintained in the business. Therefore, in this journal, all such transactions are recorded which do not occur frequently and for these transactions, no special journal is required. For example, if Machinery is purchased on credit, it will be recorded in the journal proper, because in the Cash Book, we will record only cash purchases of machinery. Similarly, many other transactions, which do not find their place in the special journals, will be recorded in the Journal Proper such as

(i) Outstanding expenses – Salaries outstanding, Rent outstanding, etc.

(ii) Prepaid expenses – Prepaid Rent, Salaries paid in advance

(iii) Income received in advance – Rent received in advance, interest received in advance, etc.

(iv) Accrued Incomes – Commission yet to be received, interest yet to be received.

(v) Interest on Capital

(vi) Depreciation

(vii) Credit Purchase and Credit Sale of fixed Assets – Machinery, Furniture.

(viii) Bad debts.

(ix) Goods taken by the proprietor for personal use.

INTEXT QUESTIONS 5.6

Fill in the blanks with suitable word/words:

i. Return of goods purchased by the businessman to the suppliers will be entered in ____________ Journal.

ii. In ____________ Journal, credit purchases of assets is not recorded.

iii. When the payment is to be made by the debtor, under a written agreement it is ____________ for him.

iv. An order made by the creditor to his debtor to make the payment on a specified date is known as ____________.

v. In ____________ all such transactions are recorded for which no special journals are maintained.

vi. Assets sold on credit are entered in ____________.

WHAT YOU HAVE LEARNT

- The Book in which all business transactions are recorded, datewise i.e. chronological order is known as Journal.
- A Journal contains the following columns:

  1. Date: 2. Particulars; 3. Ledger folio; 4. Debit Amount; 5. Credit Amount.
- Brief explanation of a journal entry is known as Narration.
- A combination of two or more simple journal entries is known as compound entires.
- Cash discount is recorded in the journal whereas no entry is made for Trade Discount.

- When the amount paid or received is partly utilised by the end of an accounting year, and balance is for services to be provided in the next year or amount is yet to be paid or to be received for the services availed of in the current year, adjustment is required and adjusting entries will be made.
- In big business houses, a journal is classified into various special journals which record transactions of similar and repetitive nature.
- All those transactions which arise occasionally or do not find place in any of the special journals are recorded in Journal proper.
- Special Journals : These are used for recording specific nature transactions:

Cash Book	Purchase Book	Sales Book	Purchase Returns	Sale Returns	Bill Receivable Book	Bill Payable Book

TERMINAL EXERCISE

1. Write the meaning of the following in one sentence each:

    (i) Narration

    (ii) Ledger folio

    (iii) Bad debts

    (iv) Cash Discount

2. The following journal entries have been made by a learner. You are required to make correct entries wherever you think them to be wrong :

    (i) Proprietor brought capital into Business

    Capital A/c .... Dr.

    To Cash A/c

    (ii) Goods Sold for Cash

    Cash A/c .... Dr.

    To Goods A/c

    (iii) Machinery Purchased in Cash

    Purchases A/c .... Dr.

    To Cash A/c

(iv) Goods sold to Ram for cash

Ram A/c .... Dr.

To Sales A/c

(v) Salary paid to the Accountant

Accountant's personal A/c .... Dr

To Salary A/c

(vi) Rent paid in advance

Prepaid Rent A/c .... Dr

To Cash A/c

3. Distinguish between Special Journals and Journal Proper.

4. Journalise the following transactions :

   (i) Started business with cash ₹ 3,00,000.

   (ii) Bought Goods on credit for ₹ 5,000.

   (iii) Sold Goods for cash ₹ 12,000 and on credit ₹ 8,000.

5. Explain the process of journalising the transactions with suitable examples.

6. What are compound entries? Explain with suitable examples.

7. What are adjusting entries? Give examples of any two such entries.

8. Enter the following transactions in Journal

2014		
Jan. 1	Sushil & Co. started business with cash	1,00,000
Jan. 2	Paid into Bank	60,000
Jan. 4	Purchased Machinery and paid by cheque	30,000
Jan. 6	Bought goods from Naresh	20,000
Jan. 14	Paid salaries	5,000
Jan. 15	Sold goods to Rajesh Kumar	15,000
Jan. 17	Paid for Sundry Expenses	8,500
Jan. 18	Cash deposited into Bank	20,000
Jan. 19	Received Rent	6,000
Jan. 22	Paid Naresh by cheque in full settlement of his A/c	19,750

Jan. 24	Withdrawn cash for personal use	8,000
Jan. 26	Salary paid in advance to Surjeet	2,500
Jan. 28	Rajesh made the payment on A/c	10,000
Jan. 30	Cash Sales for the month	16,500

9. The following are the transactions of Kumar Swami for the month of January 2014. Journalise these transactions.

2014		₹
Jan. 1	Capital paid into Bank	3,00,000
Jan. 1	Bought Stationery for cash	400
Jan. 2	Bought Goods for cash	25,000
Jan. 3	Bought Postage Stamps	600
Jan. 5	Sold Goods for Cash	10,000
Jan. 6	Bought Office Furniture from Mahendra Bros.	40,000
Jan. 11	Sold goods to Jacob	12,000
Jan. 12	Received cheque from Jacob	12,000
Jan. 14	Paid Mahendra Bros. by cheque	40,000
Jan. 16	Sold goods to Ramesh & Co	5,000
Jan. 20	Bought from S. Seth & Bros	15,000
Jan. 23	Bought Goods for cash from S.Narain & Co	22,000
Jan. 24	Sold Goods to P.Prakash	17,000
Jan. 26	Ramesh & Co. Paid on account	2,500
Jan. 28	Paid S.Seth & Bros. by cheque in full settlement	14,800
Jan. 31	Paid Salaries	2,800
Jan. 31	Rent is due to S. Sharma but not yet paid	2,000

Notes

ANSWERS TO INTEXT QUESTIONS

5.1 I. Journal is a book of accounts in which all day to day transactions are recorded in the order of their occurence.

II. (i) the journal (ii) original book of entries/Primary Book of entries (iii) entires (iv) narration (v) 'to'

Notes

5.2 I.

S.No.	Debit		Credit	
	Name of A/c	*Kind of A/c*	*Name of A/c*	*Kind of A/c*
(ii)	Goods A/c	Asset	Creditors A/c	Liability
(iii)	Commission A/c	Expense	Bank A/c	Asset
(iv)	Bank A/c	Asset	Cash A/c	Asset
(v)	Cash A/c	Asset	Interest A/c	Revenue
(vi)	Furniture A/c	Asset	Mukesh A/c	Liability
(vii)	Ramesh A/c	Asset	Goods A/c	Asset

II. (i) Goods sold for cash (ii) Goods purchased from Vinay on credit

III. (i) Goods A/c (ii) Commission A/c (iii) Interest (iv) Cash A/c

5.3 I. (i) Compound entry (ii) Debited (iii) Cash (iv) Trade

(v) Debited (vi) Debited (vii) Asset (viii) Drawings, Cash

II. (i) Cash A/c (ii) Discount (iii) Prepaid Rent
(iv) Capital A/c (v) Commission A/c (vi) Bad Debts A/c

5.4 (i) Purchase Returns - Journal (ii) Purchase Journal

(iii) Bill Payable (iv) Bill of Exchange (v) Journal proper (vi) Journal proper