

CHAPTER-9

BOOKS OF ORIGINAL ENTRY- JOURNAL

The books in which a transaction is recorded for the first time from a source document are called 'Books of Original Entry'. Journal is one of the basis books of original entry in which transactions are originally recorded in a chronological (day-to-day) order according to the principles of double entry system.

Journal

Journal is a book of original entry in which the transactions are recorded first of all, as and when they take place.

Transactions are first entered in this book to show which accounts should be debited and which credited. Journal is also called subsidiary book. Recording of transactions in journal is termed as journalizing the entries.

JOURNALISING PROCESS

All transactions are first recorded in the journal as and when they occur; the record is chronological; otherwise it would be difficult to maintain the records in an orderly manner.

Features or Characteristics of a Journal

- (i) Journal is a book in which the transactions are recorded first of all, as and when they take place. For this reason it is called a book of original entry.
- (ii) A journal is only a book of primary (original) entry. All the transactions recorded in the journal are subsequently transferred to ledger which is the principal books of accounts.
- (iii) A journal is a daily accounting record, *i.e.*, each day's transactions are recorded in the journal on the same day.
- (iv) In journal, transactions are recorded in a chronological order, *i.e.*, in a date-wise order.
- (v) It maintains the identity of each transaction and provides a complete picture of the same in one entry.
- (vi) A journal records both debit and credit aspects of a transaction according to the double entry system of book-keeping.
- (vii) Each entry in the journal is followed by a brief explanation of the transaction which is called 'Narration'.
- (viii) A single journal entry is capable of recording more than one transaction involving more than two accounts. Such an entry is called compound entry.

Format of Journal

Journal

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

Advantages of Journal

1. Provides date-wise record: The transactions in the journal are recorded in chronological (date wise) order so any transaction can be located easily.
2. Reduces possibility of committing error: Since amount to be debited and credited are written simultaneously so possibility of committing an error is negligible.
3. Provides complete detail of transaction: Each transaction is followed with brief explanation in the form of narration so each entry is easily understandable.
4. Facilitates ledger posting of transactions: Since journal records every transaction in the form of debit and credit so they can be easily posted into ledger without committing any mistake.
5. Cross checking of ledger account: Journal facilitates cross checking of ledger accounts in case of disagreement of trial balance. It also facilitates audit clerk to check the ledger accounts from the journal.

Meaning of Goods

Goods are those things which are purchased for resale. For example, if a cloth merchant purchases cloth, the cloth will be termed as ‘purchases’

- i. Purchases A/c** – When goods are purchased, instead of debiting goods A/c ‘Purchase A/c’ is debited purchase A/c is a nominal account and while passing a journal entry ‘Purchase A/c’ should always be debited because of the rule of “Debit all Expenses and Loss”.
- ii. Sales A/c** – When goods are sold, instead of crediting Goods A/c ‘Sales A/c’ is credited. Sales A/c is a nominal account and while passing a journal entry ‘Sales A/c’ should always be credited because of the rule of “Credit all Incomes and Gains.”
- iii. Purchases Return A/c** – This account is also named as ‘Return Inward’. It is a nominal account and should always be credited because purchases i.e. expenses are reduced.
- iv. Sales Return A/c** – This account is also named as ‘Return Inward’. It is a nominal account and should always be debited because incomes i.e. sales are reduced.
- v. Stock**

Limitations of Journal

1. Not suitable when volume of transaction is large: In such cases, journal is sub-divided into several subsidiary books viz., cash book, purchases book, sales book, purchases return book, sales return book, etc. and transactions are recorded.
2. Complex system of recording: Recording of a transaction in the journal is of complex nature. First of all, transaction is analysed to know which two aspects are involved, then rules of debit and credit as per double entry system are applied to determine which account is to be debited and which account is to be credited.
3. Do not reveal cash balance: If all the transactions are recorded in the journal, cash balance can be known on daily basis only when cash transactions are posted into cash account in the ledger.
4. Journal is no substitute of ledger: Though all the transactions of the business entity are recorded in the journal but account wise detail cannot be ascertained unless all the journal entries are posted into ledger.

Discount

Discount refers to some deduction in the total amount due from debtors or amount due to creditors. Discount is of two types, namely:

- (i) Trade Discount
- (ii) Cash Discount

- (i) **Trade Discount:** Trade discount is allowed by the manufacturer to the wholesaler or by the wholesaler to the retailer on list price of the goods at a fixed percentage rate. The purpose of the trade discount is to promote large quantity of sales. Trade Discount is offered both on cash sales and on credit sales. It is directly deducted from the cash memo in case of cash sales and from the sales invoice in case of credit sales. Thus, no separate entry is passed for trade discount in the book of accounts both by the buyer and by the seller of the goods.
- (ii) **Cash Discount:** Cash Discount is allowed by the seller of goods to the customer for making prompt payment or early payment. Suppose Ram sells goods to Mohan for Rs.10,000 giving him credit for a period of two months. Ram offered 2% cash discount to Mohan if the later makes payment within 5 days.

Distinction between Trade Discount and Cash Discount

S.No.	Basis	Trade Discount	Cash Discount
1.	Meaning	Trade Discount is allowed by the manufacturer or wholesaler to the retailer as a deduction at a fixed percentage rate from the list price of the goods.	Cash Discount is allowed by the seller to its customers inducing the later to make prompt payment or within a fixed period of time.
2.	Object	It is usually allowed to retailer so that they may sell goods at the list price to customers and still earn	It is allowed to customers as an inducement to them to make prompt payment or payment within

		profit.	in a fixed period of time.
3.	Treatment in the book of accounts.	Trade Discount is directly deducted from the cash memo/invoice of the bill and no separate entry is passed.	Cash Discount is deducted only if the buyer of the goods makes payment within a fixed period so entry for discount is passed in the books of accounts.
4.	Allowance	It is a sort of allowance from the list price of the goods.	It is an allowance from the amount due.
5.	Timing	It is allowed at the time of sale of goods.	It is allowed at the time of making payment.

Entries of Specific Nature

- Bad Debts: If the amount of credit sales is either not realised or partially realised from the customer (debtor), the amount not realised is a loss and termed as bad debt. The Journal entry passed are:

- i. If whole amount is irrecoverable**

Bad debts A/c	Dr.
To Debtor's Personal A/c	

- ii. If amount is partly irrecoverable**

Cash/Bank A/c	Dr.
Bad debt A/c	Dr.
To Debtor's Personal A/c	

- Bad debt Recovered: Sometimes, the amount written off as bad debt from a customer is realised in the next accounting year. The amount so realised is a gain now as it was previously considered as a loss (bad debt). The entry passed will be

Cash/Bank A/c	Dr.
To Bad Debt Recovered A/c	

- Drawing of goods: If the proprietor of the firm takes goods from the firm for his personal use, it is called as drawings. The entry passed is :

Drawing A/c	Dr.
To Purchases A/c	

- Goods given away as charity-The goods given away as a charity reduces the purchase of goods. The entry passed is:

Charity A/c	Dr.
To Purchases A/c	

5. Distribution of goods as free samples: Goods are often distributed as free samples to promote the sales. It is a part of advertisement expenses and freesample of goods is deducted from the purchases. The entry is:

Advertisement A/c	Dr.
To Purchases A/c	

6. Goods is used for making an assets: Often goods may be used for making an asset e.g., a timber merchant used wood worth Rs.4,000 for making table and chairs for office.

Furniture A/c	Dr.
To Purchases A/c	

Goods lost by fire/theft: In both the cases, purchase of goods is reduced and it is a loss to the business. The entry passed is:

Loss by fire/Theft A/c	Dr.
To Purchases A/c	

(a) If goods is not insured

Profit & Loss A/c	Dr.
To Loss by Fire A/c	

(b) If goods is fully insured

Insurance Co.	Dr.
To Loss by Fire/Theft A/c	

(c) On recovery of insurance claim

Bank A/c	Dr.
To Insurance	

(d) When insurance company admit partial claim

Insurance Co. A/c	Dr.
Profit & Loss A/c	Dr.
To Loss by Theft/Fire A/c	

Expenditure on Installation of Plant or Erection of Building

Both plant and building are assets of the business. Thus, expenditure incurred on carriage, freight, wages and installation of plant are of capital nature so these should be debited to plant account. Similarly, expenditure incurred during construction of building such as material, wages, construction on cycle shed, etc. should also be debited to building account.

Similarly, expenditure on repair on the purchase of second hand machinery should also be debited to machinery A/c as expenditure is done to increase the life and working of machinery.

However, repair charges on the existing plant be debited to repair A/c as it is a revenue expenditure.

Some Special Entries at the end of the year

- i. **Outstanding Expenses:** All those expenses which have due at the end of the accounting year but have not been paid are called outstanding expenses. For example, wages, salary, rent, etc. for the last month of the year (say December) will be paid in January next year so they remain unpaid at the end of the year. As per principle of matching concept, these expenses are related to current accounting year even though they have not been paid.
- ii. **Prepaid Expenses** some expenses have been paid during the current year but a portion of it relate to next accounting year. The portion related to next year is called prepaid expenses or expenses paid in advance.
- iii. **Accrued Income:** Some incomes have been received during the current year but a portion of income is still due but not yet received. These incomes may relate to interest, commission etc.
- iv. **Unearned Income:** At the close of the accounting year, sometime we have received an income but a portion of income relates to next accounting year (i.e., income received in advance) so it is our liability.
- v. **Depreciation:** The fixed assets decrease in their value due to wear and tear and with the passage of time. Depreciation is charged in proportion to its useful life to the business. Depreciation is a nominal account and it represents expense/loss the business though it is not paid in cash.
- vi. **Interest on Capital:** Since owner is distinct from the business entity so is usual for the business to pay interest on the capital invested by the owner. Thus, interest on capital is a business expense so as per rule of nominal account, interest account will be debited.
- vii. **Interest on Drawing:** If the business allows interest on capital on owners capital, it should also charge interest on drawings made by the owner from his capital. Thus, interest on

- drawing is a income to the business. It is a nominal account so it is credited and drawing account will be debited as owner will pay it to the business out of his capital.
- viii. Income Tax Paid For sole proprietorship and partnership business, payment of income tax is treated as drawing of owner/partner.
- ix. Provision for Doubtful Debts on Debtors: Let us suppose that firm has to receive 20,000 from its various debtors (to whom we have sold goods but payment has not yet received) during the accounting year. Our past experience suggests that amount of 5% debtors will not be recovered next year. Since we are anticipating loss so provision for doubtful debts be made during current year.

VERY SHORT ANSWER QUESTION

1. What is a Journal ?

Ans: A Journal is a book of original entry in which transaction are recorded in the order in which they occur i.e. in chronological order.

2. Why is the Journal called a book of original entry?

Ans: A Journal is called a book of original (or Primary) entry because all transactions are entered first in the book .

3. What is a Journalising ?

Ans: The process of recording transactions in the Journal is called journalising .

4. Give one advantage of Journal?

Ans: As transaction in journal are entered as and when they take place , the possibility of omission of a transaction in the books of account is minimised.

5. Give one limitation of Journal .

Ans: When the number of transaction is large, it is not possible to record all the transactions in Journal . It will become bulky and voluminous .

6. What is Narration ?

Ans : After each entry , a brief explanation of the transaction together with necessary detail is given . This explanation is called 'Narration'.

7. what is Ledger Folio or L.F. ?

Ans :Ledger Folio or L.F. is the page number of the ledger account where the posting has been made from or L.F. is the page number of the ledger is recorded in the journal .

8. What is Compound Journal Entry?

Ans :Some times ,two or more transaction relating to one particular account take place on the same date , in such cases . instead of passing separate entries for all such transaction only one entry is passed . Such a Journal entry is termed as compound journal Entry.

9. What is Opening Entry?

Ans: Opening entry is a compound entry which carries forward all the balances of assets and liabilities of previous year to the current year.

10. What is passed for withdrawing of goods by the proprietor for personal use?

Ans: Drawing A/c Dr.

To Purchase A/c

11. Which account should be debited , if wages are paid for installation of a machine ?

Ans : Machine Account

12. Hari gifted a set of six T-Shirts (Made in his garments factory) to one of his friend , in which accounts this transaction should be debited and credited ?

Ans :It will be debited to Drawing A/c and Credited to Purchase A/c

Objective Type Questions

A. Select the most suitable alternative

1. Purchase of goods from X Cash should be credited to:-
 - a.Purchase
 - b.Cash
 - c.X
2. Main object of preparing a 'Journal' is :
 - a.To ascertain the financial position of the business
 - b.To journalise the case transactions
 - c.To make posting in the ledger
 - d.To record the business transaction first of all
3. Personal accounts are related to :
 - a.Assets and Liabilities
 - b.Expenses , losses and incomes
 - c.Debtors , Creditors
4. Real account are related to
 - a.Assets
 - b.Expenses , losses and incomes
 - c.Debtors , Creditors etc
5. Nominal accounts are related to :
 - a.Assets and liabilities
 - b.Expenses , losses and incomes
 - c.Debtors, creditors etc
6. Goods worth Rs 7,000 given as charity would be credited :
 - a.Sales A/c
 - b.Purchase A/c
 - c.Charity A/c
 - d.Trustee A/c

7. Payment of Rs. 6,000 workmen for installation of a machine should be debited to :
 - a. Wages A/c
 - b. Repairs A/c
 - c. Machinery A/c
8. Loss of goods by fire should be credited to :
 - a. Sales A/c
 - b. Loss A/c
 - c. Profit & Loss A/c
 - d. Purchase A/c
9. Journal records the transaction of a firm in a
 - a. Periodical manner
 - b. Chronological order
 - c. Summarised manner
 - d. Systematic order
10. Rent of proprietor's house paid from account on cash will
 - a. Decrease the profit
 - b. Increase the profit
 - c. Reduce the capital of business
 - d. Reduce the cash as well as capital of business

Ans

1 b 2 d 3 c 4 a 5 b
6 b 7 c 8 d 9 b 10 d

B. State whether the following statements are true or false

1. Personal account always show debit balance .
2. Nominal accounts always show debit balance .
3. Real accounts generally show debit balance
4. Opening entry is passed for the first transaction of each day.
5. Purchase Account is always debited .
6. Sales Account is always debited
7. Purchase Return Account is always debited
8. Sales Return Account is always credited
9. The system of recording transaction on the basis of their two-fold aspect is called double account system .
10. Goods bought for resale are referred to as sales

Ans :

True :- 3 , 5 , 6

False:- 1 , 2 , 4 , 7 , 8 , 9 , 10

C. Fill in the blank:-

1. Sale of goods to X for cash will be Credited to.....A/c
2. Goods taken by the proprietor for personal use will be credited toA/c.
3. Loss of goods by fire should be credited toA/c .
4. For goods returned by customer.....A/c . is debited.
5. Salary paid to Mohan will be debited toA/c.
6. Cash received from Surrender as rent will be credited toA/c.
7. Premium paid on the life insurance policy of the proprietor will be debited toA/c.
8. Outstanding rent will be debited toA/c

1. Sales 2.Purchase 3.Purchase 4. Sale Return 5. Salary Ans :
6. Rent 7.Drawings 8. Rent

D. Fill in the blanks:-

1. Rule ofA/c is “debit what comes in and credit what goes out.”
2. Rule of.....A/c is “debit the receiver and credit the giver”.
3. Rule of.....A/c is “debit all expenses and losses and credit all income and gains.”
4. Journal is a book of.....

- 1 Real 2 Personal 3 Nominal 4 Original or primary entry