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Manual Accounting - Module 6

The Journal and Rules of Journal

The Journal, also known as the book of original entry, is used to record all business transactions in chronological order as they occur. Each transaction is recorded with details that include the date, the accounts involved, and the amounts to be debited and credited.

Functions of the Journal:

- **Chronological Order:** Maintains a date-wise record of all transactions.
- **Identity of Transactions:** Keeps a complete and permanent record of each transaction at one place.
- **Basis for Ledger Posting:** Provides the necessary details for posting into the ledger.
- **Double Entry Analysis:** Analyzes each transaction into debit and credit aspects as per the double-entry system of bookkeeping.

Format of the Journal:

The journal is typically formatted with columns for the date, account titles, ledger folio, debit amount, and credit amount. Here is a standard format:

Date	Particulars	L.F. (Ledger Folio)	Debit Amount (Rs.)	Credit Amount (Rs.)
YYYY-MM-DD	Account to be Debited		Amount	
	To Account to be Credited			Amount
	[Narration: Brief description of the transaction]			

Rules of Journalizing

Recording transactions in the journal is done according to the rules of the double-entry system. The double-entry system is fundamental in accounting, ensuring that every transaction affects at least two accounts, maintaining the accounting equation:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

Double Entry System

The double-entry system requires that for every debit entry, there must be an equal and corresponding credit entry. This system ensures that the books are always balanced.

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Rules for Journalizing

1. Identify the Accounts Involved: Determine which accounts are affected by the transaction.
2. Classify the Accounts: Determine if the affected accounts are assets, liabilities, equity, revenue, or expenses.
3. Determine the Nature of the Accounts: Identify whether the accounts increase or decrease as a result of the transaction.
4. Apply the Rules of Debit and Credit:
 - Assets: Increase with a debit, decrease with a credit.
 - Liabilities: Increase with a credit, decrease with a debit.
 - Owner's Equity: Increase with a credit, decrease with a debit.
 - Revenues: Increase with a credit, decrease with a debit.
 - Expenses: Increase with a debit, decrease with a credit.
5. Record the Transaction:
 - Write the date of the transaction.
 - Enter the account to be debited on the first line with the amount in the debit column.
 - Enter the account to be credited on the second line indented, with the amount in the credit column.
 - Write a brief description or narration of the transaction below the entries.

Examples of Journal Entries Using Double-Entry System

1. Started business with cash Rs. 100,000 and equipment Rs. 50,000
 - Accounts Involved: Cash, Equipment, Capital
 - Classification: Asset (Cash, Equipment), Owner's Equity (Capital)
 - Nature: Increase in Cash (Debit), Increase in Equipment (Debit), Increase in Capital (Credit)

DATE	PARTICULAR	LF	DEBIT AMOUNT (RS.)	CREDIT AMOUNT (RS.)
YYYY-MM-DD	CASH A/C	DR	100000	
	EQUIPMENT A/C	DR	50000	
	TO CASH A/C			150000
	(BEING BUSINESS STARTED WITH CASH AND EQUIPMENT)			

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2. Paid for utilities Rs. 3,000

- Accounts Involved: Utilities Expense, Cash
- Classification: Expense (Utilities Expense), Asset (Cash)
- Nature: Increase in Expense (Debit), Decrease in Cash (Credit)

DATE	PARTICULAR	LF	DEBIT AMOUNT (RS.)	CREDIT AMOUNT (RS.)
YYYY-MM-DD	UTILITIES EXPENSE A/C TO CASH A/C (BEING PAYMENT MADE FOR UTILITIES)	DR	3000	3000

3. Purchased goods for cash Rs. 25,000 and on credit Rs. 30,000

- Accounts Involved: Inventory, Cash, Creditors
- Classification: Asset (Inventory, Cash), Liability (Creditors)
- Nature: Increase in Inventory (Debit), Decrease in Cash (Credit), Increase in Creditors (Credit)

DATE	PARTICULAR	LF	DEBIT AMOUNT (RS.)	CREDIT AMOUNT (RS.)
YYYY-MM-DD	PURCHASE A/C TO CASH A/C TO CREDITORS A/C (BEING GOODS PURCHASED FOR CASH AND ON CREDIT)	DR	55000	25000 30000

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Classification of Accounts

In accounting, accounts are classified into two main categories: Personal Accounts and Impersonal Accounts. Each of these categories has subtypes, each governed by specific rules. Here's an in-depth look at these classifications:

1. Personal Accounts

Personal Accounts are related to individuals, firms, companies, or institutions. These accounts represent parties with whom the business has direct dealings.

Rule:

"DEBIT the receiver, CREDIT the giver"

Types of Personal Accounts:

- Natural Personal Accounts: Accounts of natural persons or individuals. For example, John Arnold's Account.
- Artificial Personal Accounts: Accounts of entities that are not natural persons but are recognized as persons in the eyes of law. For example, XYZ Ltd. Account, ABC Bank Account.
- Representative Personal Accounts: Accounts that represent a certain group of people. For example, Outstanding Salaries Account (representing employees to whom salaries are owed), Prepaid Rent Account (representing the landlord).

2. Impersonal Accounts

Impersonal Accounts are not related to individuals or entities. These accounts are further divided into Real Accounts and Nominal Accounts.

(a) Real Accounts:

Real Accounts are related to assets or properties of the business. These accounts can be both tangible and intangible.

Rule:

"DEBIT what comes in, CREDIT what goes out"

Types of Real Accounts:

- Tangible Accounts: Accounts of physical assets that can be touched and seen. For example, Machinery Account, Building Account.
- Intangible Accounts: Accounts of non-physical assets that cannot be touched but have value. For example, Goodwill Account, Patent Account.

(b) Nominal Accounts:

Nominal Accounts are related to expenses, losses, incomes, and gains of the business.



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Rule:

"DEBIT all expenses and losses, CREDIT all incomes and gains"

These accounts are temporary accounts that are closed at the end of each accounting period to determine the net profit or loss. They include:

- Expenses Accounts: For example, Rent Expense Account, Salary Expense Account.
- Income Accounts: For example, Sales Account, Interest Received Account.

Solved Example

Q1. Record the following transactions in the journal of Vishal:

1. Commenced business with cash: 5,00,000
2. Goods purchased from Mohan for cash: 50,000
3. Goods purchased from Ajay: 1,20,000
4. Goods returned to Ajay: 5,000
5. Goods sold to Rajiv: 40,000
6. Rajiv returned 10% of goods.

Solution: Let's record each transaction in Vishal's journal using the rules of accounting for the different types of accounts. The format of the journal entries includes the date, particulars, and the debit and credit amounts.

1. Commenced business with cash: 5,00,000

DATE	PARTICULAR	LF	DEBITED AMOUNT (RS.)	CREDITED AMOUNT (RS.)
YYYY-MM-DD	CASH A/C TO CAPITAL A/C (BUSINESS STARTED WITH CASH)	DR	5,00,000	5,00,000

2. Goods purchased from Mohan for cash: 50,000

DATE	PARTICULAR	LF	DEBITED AMOUNT (RS.)	CREDITED AMOUNT (RS.)
YYYY-MM-DD	PURCHASE A/C TO CASH A/C (GOODS PURCHASE FROM MOHAN FOR CASH)	DR	50,000	50,000

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3. Goods purchased from Ajay: 1,20,000

DATE	PARTICULAR	LF	DEBITED AMOUNT (RS.)	CREDITED AMOUNT (RS.)
YYYY-MM-DD	PURCHASE A/C DR TO AJAY'S A/C (GOODS PURCHASE FROM AJAY)		1,20,000	1,20,000

4. Goods returned to Ajay: 5,000

DATE	PARTICULAR	LF	DEBITED AMOUNT (RS.)	CREDITED AMOUNT (RS.)
YYYY-MM-DD	AJAY'S A/C DR TO PURCHASE RETURN A/C (GOODS RETURNED TO AJAY)		5,000	5,000

5. Goods sold to Rajiv: 40,000

DATE	PARTICULAR	LF	DEBITED AMOUNT (RS.)	CREDITED AMOUNT (RS.)
YYYY-MM-DD	RAJIV'S A/C DR TO SALES A/C (GOODS SOLD TO RAJIV)		40,000	40,000

6. Rajiv returned 10% of goods.

DATE	PARTICULAR	LF	DEBITED AMOUNT (RS.)	CREDITED AMOUNT (RS.)
YYYY-MM-DD	SALES RETURN A/C DR TO RAJIV A/C (GOODS RETURNED BY RAJIV)		4,000	4,000

Assignment

Ques 1: Record the following transactions in the journal:

1. Started business with ₹300,000 cash and ₹200,000 furniture.
2. Purchased goods for cash ₹50,000.
3. Sold goods for cash ₹80,000.
4. Paid rent expenses ₹10,000.
5. Received commission income ₹15,000.
6. Withdrew cash for personal use ₹20,000.

Ques 2: Journalize the transactions:

1. Received ₹50,000 from a customer.
2. Purchased machinery for ₹150,000 by issuing a cheque.
3. Depreciation of machinery for the year amounted to ₹12,000.
4. Paid salaries to employees ₹25,000.
5. Sold old furniture for ₹30,000 cash.
6. Received interest income of ₹5,000.

Ques 3: Journalize the transactions:

1. Started business with ₹200,000 cash and ₹150,000 worth of equipment.
2. Bought goods for cash ₹40,000.
3. Sold goods on credit to XYZ Ltd. for ₹60,000.
4. Paid utility bills amounting to ₹8,000.
5. Received payment from XYZ Ltd. for the credit sale ₹55,000.

Ques 4: Record the following transactions in the journal:

1. Commenced Business with cash ₹1,00,000.
2. Purchased office supplies for cash ₹15,000.
3. Provided services to a client and invoiced them ₹25,000.
4. Paid insurance premium for the year ₹12,000.
5. Received interest income by bank ₹10,000.

Ques 5: Journalize the transactions:

1. Received a loan from a bank ₹300,000.
2. Purchased raw materials for cash ₹50,000.
3. Paid wages to laborers ₹20,000.
4. Sold finished products for cash ₹100,000.
5. Payment made to a customer by bank for ₹25,000.

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