

MEANING OF KEY TERMS USED IN THE CHAPTER

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| 1. Journal | It is the primary book of account in which transactions are first recorded in a chronological order, <i>i.e.</i> , in the order they are entered into. |
| 2. Book of Original Entry | It is the book in which a transaction is first recorded, <i>i.e.</i> , Journal book. |
| 3. Bad Debts | It is the amount which is not recoverable and hence, written off. |
| 4. Bad Debts Recovered | It is the amount which was earlier written off as Bad Debt and is later recovered, in full or in part. |
| 5. Discount | |
| • Trade Discount | It is a discount allowed to the purchaser of goods when goods are purchased in large quantity. |
| • Cash Discount | It is a discount allowed on receipt of amount promptly, <i>i.e.</i> , within the agreed time. |
| • Rebate | Rebate is the discount allowed for reasons other than those for which trade discount and cash discount are allowed. For example, rebate allowed for poor quality of goods, goods being not as per specification, etc. |
| 6. Simple Journal Entry | It is a Journal entry in which one account is debited and another account is credited. |
| 7. Compound Journal Entry | It is a Journal entry in which one or more accounts are debited and/or credited. |
| 8. Opening Entry | It is the first entry passed in the Journal book incorporating the closing balances of previous year. |
| 9. Goods and Services Tax (GST) | Goods and Services Tax (GST) is a comprehensive indirect tax charged each time the supply is made, <i>i.e.</i> , each time the goods are sold and/or services are rendered, except on the exempt goods and services. |

CHAPTER SUMMARY

- **Journal** is the primary book of account in which transactions are first recorded in a chronological (day-to-day) order.
- **Journal** is a book of original entry because a transaction is first entered in the Journal from where it is posted to the Ledger.
- **Journal entry** may be (i) Simple Journal Entry; or (ii) Compound Journal Entry.
 - (i) *Simple Journal Entry* is a Journal entry in which one account is debited and another account is credited.
 - (ii) *Compound Journal Entry* is a Journal entry, which involves more than two accounts. It means it is an entry in which one or more than one accounts are debited and/or credited.

- **Opening Entry:** In case of an existing business, assets and liabilities existing in the previous year's Balance Sheet will have to be brought forward to the current year. These assets and liabilities are brought in the books of account of new financial year by means of a Journal entry termed as **Opening Entry**.

- **Steps in Journalising**

Step 1: Identify the accounts involved in the transaction.

Step 2: Determine the nature of accounts, *i.e.*, Asset, Liability, Capital, Expense or Revenue.

Step 3: Apply the rules for 'Debit' and 'Credit'.

Step 4: Draw ruling of a Journal and record the transaction.

- **Advantages of a Journal**

1. It reduces the possibility of errors.
2. It provides an explanation to an entry by way of narration.
3. It provides a chronological record of transactions.
4. It provides the base for posting of transactions in ledger accounts.
5. It helps in locating the errors.

- **Disadvantages of Journal**

1. Unsuitable for Large Volume of Transactions.
2. Not a simple system of recording.
3. Cash Balance is not revealed.
4. Not a substitute of ledger.

IMPORTANT JOURNAL ENTRIES

<i>Transaction</i>	<i>Journal Entry</i>
1. Amount brought into the business as capital	Cash or Bank A/c ...Dr. To Capital A/c
2. Cash and other assets brought into business	Building A/c ...Dr. Plant and Machinery A/c ...Dr. Furniture A/c ...Dr. Cash or Bank A/c ...Dr. To Capital A/c
3. Goods purchased on credit	Purchases A/c ...Dr. To Supplier's A/c
4. Sale of goods on credit	Customer's A/c ...Dr. To Sales A/c
5. Goods purchased for cash	Purchases A/c ...Dr. To Cash or Bank A/c
6. Cash sales	Cash or Bank A/c ...Dr. To Sales A/c
7. Opening a Bank Account	Bank A/c ...Dr. To Cash A/c To Capital A/c (If opened with personal cash/cheque)

8. Withdrawal of cash from bank	Cash A/c (Office Cash)	...Dr.
	Drawings A/c (Personal use)	...Dr.
	To Bank A/c	
9. Collection of cash/cheque from customers (and discount allowed, if any)	Cash or Bank A/c (Net amount)	...Dr.
	Discount Allowed A/c (Discount)	...Dr.
	To Customers' A/c	
10. For payment of cash/cheque to suppliers (and discount received, if any)	Suppliers' A/c	...Dr.
	To Cash or Bank A/c (Net Amount)	
	To Discount Received A/c (Discount)	
11. Bad Debts	Bad Debts A/c	...Dr.
	To Debtor's A/c	
12. Recovery of Bad Debts	Cash or Bank A/c	...Dr.
	To Bad Debts Recovered A/c	
13. Purchase of machinery for cash	Machinery A/c	...Dr.
	To Cash or Bank A/c	
14. Depreciation charged on assets	Depreciation A/c	...Dr.
	To Asset A/c	
15. Sale or disposal of any old asset at a loss	Cash or Bank A/c	...Dr.
	Loss on Sale of Asset A/c (Profit & Loss A/c)	...Dr.
	To Asset A/c	
16. Sale or disposal of any old asset at a profit	Cash or Bank A/c	...Dr.
	To Asset A/c	
	To Gain (Profit) on Sale of Asset A/c (Profit & Loss A/c)	
17. Goods returned by the customer	Returns Inward A/c	...Dr.
	To Debtor's A/c	
18. Goods returned to the supplier	Creditor's A/c	...Dr.
	To Returns Outward A/c	
19. Distribution of goods as samples	Advertisement/Samples/Sales Promotion Expenses A/c	...Dr.
	To Purchases A/c (Trader)	
	To Trading A/c (Manufacturer)	
20. For abnormal loss of goods (Fire/Stolen)	Bank A/c (Insurance claim received)	...Dr.
	Or	
	Insurance Claim A/c (Insurance claim admitted)	...Dr.
	Abnormal Loss A/c (Insurance claim not admitted)	...Dr.
	To Purchases A/c	