PRIMARY BOOKS (JOURNAL)

Meaning and Definition :

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 basic books of original entry in which transaction are originally recorded in a chronological (day to day) order according to the principles of double entry system. Thus journal provides a date –wise record of all the transaction with details of the accounts debited and credited, and the amount of each transaction.

Format of Journal :

DATE	Particulars	L.F	Dr.Amount	Cr.Amount
1	2	3	4	5

1.Date: In this column, the traction date is written
2.Particulars: In this column, two aspect of transaction are recorded, i.e. the name of the two accounts affected by the transaction. The name of the account to be debited is followed by the word 'Dr.' written close of the left-hand margin line, while the name of the account to be credited preceed by the world 'To' is written in next line, a little to the right. Narration , i.e. a brief description of the transaction is also written. Narration, i.e. a brief description of the transaction is also written.
3.Ledger Folio: In this column , the number of the Ledger page is written to which the amount is posted in the ledger.
4.Debit Amount: In this column, the amount debited is written.
5. Credit Amount: In this column the amount credited is written.
All the column, excepts the ledger folio column ,are completed at the time of journalising. The ledger folio column is filled in at the time of posting.

Steps In Journalising

Steps involved in Journalising are:
1. Ascertain the accounts that are affected by a transaction.
2. Ascertain the nature of the accounts affected.
3. Ascertain the account to be debited and credited by applying the rules of debit and credit.

According To Modern Approach Rules of Debit and Credit

Rules of Debit and Credit :

PERSONAL ACCOUNTS:
RULE: "Debit the Receiver, Credit the Giver".
E.g. Paid Rs 1000 to Hari.
In this case, two accounts affected are Hari's A/c and Cash A/c. According to the rule of ''Debit the receiver'', Hari's account will be debited in the entry as he is the receiver of cash. Simultaneously, the account of cash will be credited, as cash has gone out. The entry will be:
Hari (Debit the receiver) Dr.1, 000

To Cash A/c (Credit the giver) 1,000

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Object: To ascertain as to how much amount a personal account owes to the business.

REAL ACCOUNTS:

RULE: "**Debit What Comes In, Credit What Goes Out"**

E.g. Furniture for Rs 5000 has been purchased for cash.

In this case furniture account should be debited according to the rules of ''Debit what comes in'' while cash account should be credited according to the rule of ''Credit what goes out''. Entry will be:

Furniture A/c Dr.5000

To Cash A/c 5000

Object: This account represents the value of various properties owned by a business in terms of money

NOMINAL ACCOUNT:

RULE: "Debit all Expenses & losses, Credit all Income & Gains".

E.g. (Relating to Expenses**):** Salaries Paid, Rent Paid, Discount allowed, Bad Debts etc.

(Relating to Incomes**):** Commission Received, Interest Received, Discount Received

- **E.g. Paid Rs 5000 for salaries:**

In this case the two accounts being affected are salaries A/c and Cash A/c. Salaries represents expenses and as such salaries account will be debited according to the rule of ''Debit the expenses''. On the other hand, cash account will be credited according to the rule of ''Credit what goes out''. Entry will be:

Salary A/c (Debit the expenses) Dr. 5,000

To Cash (Credit what goes out) 5,000

- **E.g. Received Rs 1,000 for Commission.**

In this case the two accounts being affected are commission A/c and Cash A/c. Commission A/c is a nominal account and represents an income. As such commission account will be credited according to the rule of ''credit the income''. On the other hand, cash account is a real account and will be debited according to the rule of ''debit what comes in''. Entry will be:

Cash A/c (Debit what come in) Dr.1, 000

To Commission A/c (Credit the income) 1,000

Object: These accounts are opened simply to explain the nature of need for which cash has been paid. It provides information regarding the following.

- Amount spent on various heads in a particular period.
- Income received on various heads in a particular period.

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According To American Approach Rules of Debit and Credit

S.No	**Types of Account**	**Debit**	**Credit**
1	Asset Account	Increase	Decrease
2	Liabilities Account	Decrease	Increase
3	Capital Account	Decrease	Increase
4	Revenue Account	Decrease	Increase
5	Expense Account	Increase	Decrease

Opening entry, Simple and Compound entries :

Opening Entry:

In the case of continuing business we are required to pass an entry in the journal for bringing in the new books all assets and liabilities as appearing in the books on the last day of the previous year. This entry is known as 'opening entry'. Rule of passing opening entry is to debit each asset account; credit each liability account; excess of debits over credits represents capital balance. Thus if in a question capital balance is not given it can be ascertained as follows: Total debits – Total credits = Capital. **The balance sheet of Sidhart and Rachitas on 31.12.2006 contained the following**

LIABILITIES	**Amount**	**Amount**
Sundry Creditors		
K.K Chopra	1,00,000	
L.K Seth	2,00,000	
Outstanding Rent	3,000	
Sidharth Capital	5,91,000	
Rachits Capital	5,91,000	
ASSETS		
Cash in hand		10000
Cash at bank		1,00,000
Stock		5,000
Sundry Debtors		
Mr. A		20,000
Mr.B		30,000
Mr.C		40,000
Furniture and fixtures		80,000
Machinery		2,00,000
	14,85,000	14,85,000

Give the opening entry and journalise the above transaction

Cash in hand a/c	Dr.
Cash at bank a/c	Dr.
Stock a/c	Dr.
Mr. A a/c	Dr.
Mr.B a/c	Dr.
Mr.C a/c	Dr.
Furniture and fixtures a/c	Dr.
Machinery a/c	Dr.
To K.K Chopra a/c	
To L.K Seth a/c	
To Outstanding Rent a/c	
To Sidharth Capital a/c	
To Rachits Capital a/c	

<u>Simple Entry:</u> An accounting entry with only one account being debited and only one account being credited. Example:

Jan-01	**Opened a bank account and deposited Rs 40000**			
	Bank a/c	Dr	40000	
	To Cash a/c			40000
	(Being cash deposited in the bank)			

<u>Compound Entry:</u> A compound journal entry is an accounting entry in which there is more than one debit, more than one credit, or more than one of both debits and credits.

Jan-07	**Machinery Purchased from ABC & Co for Rs 10,00,000 and paid Rs 9,7 full and final settlement of a account.**			
	Machinery a/c	Dr.	10,00,000	
	To Bank a/c			9,70,000
	To Discount received a/c			30,000
	(Being Machinery purchased from ABC &Co and paid by cheque)			

<u>Difference between Trade Discount and cash Discount.</u>

Basis Of Comparison	Trade Discount	Cash Discount

Meaning	A discount given by the seller to the buyer as a deduction in the list price of the commodity is trade discount.	A deduction in the amount of invoice allowed by the seller to the buyer in goods or services is cash discount.
Allowed to all customers	Yes	No
When Allowed?	At the time of purchase.	At the time of payment.
Entry In Books	No	Yes
Purpose	For Increasing bulk Sale	For Prompt Payment.

Single Entry: Single Entry System of accounting is a system under which both aspect of transaction are not recorded in all cases. In this system either one aspect is recorded or a transaction is not recorded at all. This is also known as **Incomplete Double Entry System.** Since all transaction are not recorded under double entry principle, it is not possible to prepare a trial balance .As a result , the profit and loss account and the balance sheet cannot be prepared.

Double entry:

is an almost universally used system of business record keeping. It is a system of recording business transaction which recognises that each transaction has a dual aspect. It is so named because the principle of double entry book keeping are based upon every transaction having two aspect or two parts, i.e. two account are always affected by each transaction. Under this system, each transaction is seen as a flow of value from one account to another. The receiving account is debited with the amount and the giving account is credited. Therefore, every debit has an equal and offsetting credit. If only two accounts are affected (as in the purchase of building for cash), one account, building is debited and the other account, cash is credit for the same amount. If more than two accounts are affected by a transaction, the sum of the debit entries must be equal to the sum of the credit entries.

It is therefore, necessary to decide for each transaction, the following:

a) Which are the two accounts involved ,and
b) Whether the entries to those accounts are debit or credit.

Applying the principles of double entry will result in the amount being debited to an account being equal to the amount being credited to another account. The rule of double entry system can be explained in terms of the basic accountings equation. **Liabilities + Capital = Assets.**

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Advantages

1) A complete record of all the transaction relating to a business unit is maintained systematically.
2) The financial position of the firm can be ascertained.
3) The arithmetical accuracy of the books of account can be ensured.
4) Location and rectification of errors are possible.
5) The system can be applied to any form of organisation.

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