Chapter 2

Journal

Journal is the book of prime entry. Each and every transaction will first be recorded in the Journal. The process of recording the transaction in the Journal is known as Journalising. Transactions are recorded in the Journal in a chronological order. Narration is the brief explanation given below the entry. No Entry is complete with~~out its narration.~~
Transaction means actions or events which can be expressed in terms of money.
Transaction can be a Cash transaction or Credit transaction.
Cash transaction means exchange of money takes place immediately.
Credit transaction means exchange of money takes place in the future.
When two or more transactions are recorded together it is known as combined or composite entry. In a combined entry there can be one or more than one debits or credits.
There are two methods of recording the transactions in the books.

A) Traditional Approach : In this method the debit and credit rules are used for recording the transactions in the books .Transactions are recorded on the double entry principle. As per this rule for every debit there has to be a corresponding credit. Each & every transaction affects two Accounts of which one is debit & the other is credit.

Account can be of two types:

(a) - Personal A/c

(i) Individuals – Ram, Rohan, Sita etc.

(ii) Artificial Persons – Business, clubs temples, companies etc.

(iii) Representative Personal A/c Outstandings, Prepaids, Received in Advance, Capital Drawings etc.

(b) –Impersonal A/c

(i) Real A/c – i.e. account of Assets. Assets may be tangible assets or intangible assets.
(ii) Nominal A/c – Accounts of expenses, losses Incomes and Gains.

Transactions are recorded on the basis of GOLDEN Rules
Personal A/c: Debit the Receiver and Credit the Giver
Real A/c : Debit what comes in and Credit what goes out
Nominal A/c: Debit all Expenses & Losses and Credit all Incomes & Gains
Valuation Accounts are those Accounts which help us to determine the correct values eg. R.D.D , R.F.D.D. , R.F.D.C. , Provision for Depreciation and Stock Reserve are called as Valuation Accounts.
These Accounts are based on their original Accounts for their classification ie.
~~R.D.D., R.F.D.D. & R.F~~.D.C. are Personal Accounts as they are related to Debtors & Creditors.
Provision for Depreciation & Stock ~~Reserve are Real Accounts as they ar~~e related to Fixed Assets & Stock.

B) Equation Approach : This approach follows the following formula:

Capital + Liabilities = Assets

In this method all the transactions are recorded as per the formula. All the transactions recorded satisfy the above mentioned formula.

Transactions :

1.Goods purchased for cash

Goods ↑ and cash ↓

Assets ↑ and Assets ↓

∴ No change in total Assets

2. Goods purchased on credit

Goods ↑ and Creditor ↑

Assets ↑ and Liabilities ↑

3. Salary paid

Cash ↓ and Expense ↑

Assets ↓ and Capital ↓

4. Loan taken from Bank

Cash ↓ and Loan ↑

Assets ↑ and Liabilities□

5. Loan repaid

Cash ↓ and Loan ↓

Assets ↓ and Liabilities□

6. Rent received

Cash ↑ανδ Income ↑

Assets ↑ and Capital ↑

Conclusion as per Equation approach :

a)Increase in an Asset = a Decrease in another Asset or Increase in Liability.

b)Decrease in an Asset = an Increase in another Asset or Decrease in Liability.

c)Increase in a Liability = a Decrease in another Liability or Increase in Asset.

d)Decrease in a Liability = an Increase in another Liability or Decrease in Asset.