Chapter 1 - JOURNAL

DOUBLE ENTRY BOOK KEEPING

A system where **each transaction affects at least two accounts**, following the **Dual Aspect Concept** (Debit = Credit).

Concept	Definition
Account	A record of a person, thing, income, or expense.
Dual Aspect	Every debit has an equal credit; total debits = total credits.

Types of Accounts and Journalizing Rules

- **Traditional Approach**

Type of Account	Debit	Credit
Personal	The Receiver	The Giver
Real	What Comes In	What Goes Out
Nominal	All Expenses/Losses	All Incomes/Profits

- **Modern Approach**

Type of Account	Debit (Increase)	Credit (Decrease)
Asset	Increase	Decrease
Liability	Decrease	Increase

Type of Account	Debit (Increase)	Credit (Decrease)
Capital	Decrease	Increase
Income/Profit	Decrease	Increase
Expense/Loss	Increase	Decrease

Journal Entries & Methods of Recording

○ Types of Journal Entries

Entry Type	Definition	Recording Method
Simple Entry	A transaction affecting only two accounts.	One account is **debited**, and one is **credited**.
Compound Entry	A transaction affecting more than two accounts.	Multiple accounts can be **debited or credited** in a single entry.
Opening Entry	Brings forward balances of assets, liabilities, and capital from the previous period.	**All assets are debited**, and **all liabilities & capital are credited**.

○ Method of Recording a Journal Entry

➢ **Format:**

Date	Particulars	Debit (₹)	Credit (₹)
dd/mm/yyyy	Dr. Account Name	XXX	
	To Cr. Account Name		XXX

Date	Particulars	Debit (₹)	Credit (₹)
	(Narration: Explanation of the transaction)		

➢ **Example: Purchase of Machinery for ₹50,000 in Cash**

Date	Particulars	Debit (₹)	Credit (₹)
01/02/2024	Machinery A/c **Dr.**	50,000	
	To Cash A/c		50,000
	(Being machinery purchased in cash)		

Common Transactions and Their Journal Entries

1. Transactions with Business Owner

Transaction	Debit	Credit	Example Journal Entry
Capital Introduced	Cash/Bank A/c Assets A/c	Capital A/c	Cash A/c **Dr.** ₹1,00,000 To Capital A/c ₹1,00,000
Capital Withdrawn (Personal Use)	Drawings A/c	Cash/Bank A/c	Drawings A/c **Dr.** ₹5,000 To Cash A/c ₹5,000

Recurring Withdrawals for Personal Use	Drawings A/c	Cash/Bank A/c Purchases A/c	Drawings A/c **Dr.** ₹3,000
			  To Cash A/c ₹2,000
			  To Purchases A/c ₹1,000

Interest on Capital (Business to Owner)	Interest on Capital A/c	Capital A/c	Interest on Capital A/c **Dr.** ₹4,000 To Capital A/c ₹4,000
Interest on Drawings (Owner to Business)	Drawings A/c	Interest on Drawings A/c	Drawings A/c **Dr.** ₹2,000 To Interest on Drawings A/c ₹2,000

NOTE : Whenever goods are withdrawn by the businessman, purchases A/c is credited and not Sales A/c as the goods are withdrawn at cost and not at sales price.

2. Transactions with Banks

Transaction	Debit	Credit	Example Journal Entry
Deposit of Money into Bank	Bank A/c	Cash A/c	Bank A/c **Dr.** ₹50,000 To Cash A/c ₹50,000
Withdrawal of Money from Bank	Cash A/c	Bank A/c	Cash A/c **Dr.** ₹20,000 To Bank A/c ₹20,000
Interest Earned on Bank Deposit	Bank A/c	Interest on Bank A/c	Bank A/c **Dr.** ₹5,000 To Interest A/c ₹5,000
Bank Charges Deducted	Bank Charges A/c	Bank A/c	Bank Charges A/c **Dr.** ₹500 To Bank A/c ₹500

3. Transactions Involving Goods

Transaction	Debit	Credit	Example Journal Entry
Purchase of Goods (Cash)	Purchases A/c	Cash/Bank A/c	Purchases A/c **Dr.** ₹50,000 To Cash A/c ₹50,000
Purchase of Goods (Credit)	Purchases A/c	Supplier A/c	Purchases A/c **Dr.** ₹30,000 To Supplier A/c ₹30,000
Sale of Goods (Cash)	Cash/Bank A/c	Sales A/c	Cash A/c **Dr.** ₹70,000 To Sales A/c ₹70,000
Sale of Goods (Credit)	Customer A/c	Sales A/c	Customer A/c **Dr.** ₹25,000 To Sales A/c ₹25,000
Purchase Returns	Supplier A/c	Purchase Return A/c	Supplier A/c **Dr.** ₹5,000 To Purchase Return A/c ₹5,000
Sales Returns	Sales Return A/c	Customer A/c	Sales Return A/c **Dr.** ₹3,000 To Customer A/c ₹3,000
Charity/Donations/ **Sample sale in goods:**	Charity/Donation A/c	Purchases A/c	Charity/Donation A/c **Dr.** ₹30,000 To Purchases A/c ₹30,000

4. Treatment of Loss of Goods in Fire/Accident

Transaction	Debit	Credit	Example Journal Entry
Loss of Goods (Uninsured)	Loss by Fire A/c	Purchases A/c	Loss by Fire A/c **Dr.** ₹15,000 To Purchases A/c ₹15,000
Loss of Goods (Fully Insured)	Insurance Claim A/c	Purchases A/c	Insurance Claim A/c **Dr.** ₹20,000 To Purchases A/c ₹20,000
Loss of Goods (Partially Insured)	Insurance Claim A/c Loss by Fire A/c	Purchases A/c	Insurance Claim A/c **Dr.** ₹10,000 Loss by Fire A/c **Dr.** ₹5,000 To Purchases A/c ₹15,000

5. Transactions Involving Fixed Assets

Transaction	Debit	Credit	Example Journal Entry
Purchase of Fixed Asset (Cash)	Fixed Asset A/c	Cash/Bank A/c	Machinery A/c **Dr.** ₹1,00,000 To Bank A/c ₹1,00,000
Purchase of Fixed Asset (Credit)	Fixed Asset A/c	Creditor A/c	Equipment A/c **Dr.** ₹75,000 To Vendor A/c ₹75,000
Depreciation on Fixed Asset	Depreciation A/c	Fixed Asset A/c	Depreciation A/c **Dr.** ₹5,000 To Machinery A/c ₹5,000
Sale of Fixed Asset	Cash/Bank A/c Loss on Sale of Asset A/c	Fixed Asset A/c Profit on Sale of Asset A/c	Cash A/c **Dr.** ₹30,000 Loss on Sale A/c **Dr.** ₹5,000 To Equipment A/c ₹35,000 OR Cash A/c **Dr.** ₹45,000 To Equipment A/c ₹35,000 To Profit on Sale of Asset A/c₹10,000
Exchange of old Asset with new Asset:	Fixed Asset A/c (The asset A/c is to be debited with only the actual	Cash/Bank A/c	Machinery A/c **Dr.** ₹30,000 To Bank A/c ₹30,000

Transaction	Debit	Credit	Example Journal Entry
	amount paid for the new Asset)		
Self-Made Fixed Asset	Fixed Asset A/c	Cash A/c Purchases A/c	Building A/c **Dr.** ₹1,30,000 To Bank A/c ₹1,00,000 To Purchases A/c ₹30,000

6. Treatment of Discount

Transaction	Debit	Credit	Example Journal Entry
Trade Discount (Not recorded in books)	*Not recorded*	*Not recorded*	-
Cash Discount Allowed	Cash A/c Discount Allowed A/c	Debtor A/c	Cash A/c **Dr.** ₹9,800 Discount Allowed A/c **Dr.** ₹200 To Customer A/c ₹10,000
Cash Discount Received	Creditor A/c	Cash A/c Discount Received A/c	Supplier A/c **Dr.** ₹5,000 To Cash A/c ₹4,800 To Discount Received A/c ₹200

7. Treatment of Insolvency

Transaction	Debit	Credit	Example Journal Entry
Bad Debts (Customer Insolvent)	Bad Debts A/c	Customer A/c	Bad Debts A/c **Dr.** ₹8,000 To Customer A/c ₹8,000
Part Payment and Bad Debt	Cash A/c Bad Debts A/c	Customer A/c	Cash A/c **Dr.** ₹6,000 Bad Debts A/c **Dr.** ₹2,000 To Customer A/c ₹8,000
Bad Debts Recovered	Cash A/c	Bad Debts Recovered A/c	Cash A/c **Dr.** ₹3,000 To Bad Debts Recovered A/c ₹3,000

8. Treatment of Expenses

Transaction	Debit	Credit	Example Journal Entry
Payment of Expenses	Expense A/c	Cash/Bank A/c	Rent A/c **Dr.** ₹12,000 To Cash A/c ₹12,000
Outstanding Expenses	Expense A/c	Outstanding Expenses A/c	Salaries A/c **Dr.** ₹15,000 To Outstanding Salaries A/c ₹15,000
Prepaid Expenses	Prepaid Expense A/c	Cash/Bank A/c	Prepaid Insurance A/c **Dr.** ₹5,000 To Bank A/c ₹5,000
Expense paid by Third Party	Expense A/c	Third Party A/c	Rent A/c **Dr.** ₹10,000 To Mr.X A/c ₹10,000
Expense of Third Party paid by business:	Third Party A/c	Cash/Bank A/c	Mr.Y A/c **Dr.** ₹20,000 To Cash A/c ₹20,000

9. Treatment of Incomes

Transaction	Debit	Credit	Example Journal Entry
Income Earned (Cash)	Cash A/c	Income A/c	Cash A/c **Dr.** ₹20,000 To Commission A/c ₹20,000
Accrued Income	Accrued Income A/c	Income A/c	Accrued Interest A/c **Dr.** ₹3,000 To Interest A/c ₹3,000
Income Received in Advance	Cash A/c	Income Received in Advance	Cash A/c **Dr.** ₹10,000 To Commission received in Advance A/c ₹10,000

10. Treatment of Loans and Advances

Transaction	Debit	Credit	Example Journal Entry
Loan Taken from Bank	Bank A/c	Loan A/c	Bank A/c **Dr.** ₹1,00,000 To Loan from Bank A/c ₹1,00,000

Transaction	Debit	Credit	Example Journal Entry
Loan Taken from Anyone else	Bank A/c	Loan A/c	Bank A/c **Dr.** ₹1,00,000 To Loan from Mr.A A/c ₹1,00,000
Loan Given to Others	Loan A/c	Cash/Bank A/c	Loan to Employee A/c **Dr.** ₹25,000 To Bank A/c ₹25,000

11. Treatment of Advances for Supply of Goods

Transaction	Debit	Credit	Example Journal Entry
Advance Given for Goods	Advance for Goods A/c	Cash/Bank A/c	Advance for Goods A/c **Dr.** ₹10,000 To Bank A/c ₹10,000
Receipt of Goods Against Advance	Purchases A/c	Advance for Goods A/c	Purchases A/c **Dr.** ₹10,000 To Advance for Goods A/c ₹10,000

12. Treatment of Income Tax

Transaction	Debit	Credit	Example Journal Entry
Income Tax Paid	Drawings A/c	Cash/Bank A/c	Drawings A/c **Dr.** ₹7,000 To Bank A/c ₹7,000
Refund of Excess Tax Paid	Bank A/c	Capital A/c	Bank A/c **Dr.** ₹2,000 To Capital A/c ₹2,000

Treatment of Goods & Service Tax (GST) :

o **Central Goods and Services Tax (CGST) & State Goods and Services Tax (SGST)**

CGST and SGST are levied on intra-state (within the state) supply of goods and/or services or both. CGST and SGST is levied at half the prescribed rate of GST each.

For example, if prescribed rate is 12%, CGST and SGST will be levied @ 6% each.

IGST is levied on inter-state (outside the state or from one state to another) supply of goods and/or services or both. It is levied at the prescribed rate of GST.

For example, if prescribed rate is 12%, IGST will be levied @ 12%.

NOTE :

It is to be noted that GST is a Value added tax i.e. the tax paid at the time of purchase of goods/services are allowed to be set off or utilized as input tax against the payment of output tax on sale of goods/services. Therefore, the input and output GST are recorded under separate accounts as Input GST and Output GST.

Type of Transaction	Entry
Purchase of Goods (Within Same State/UT)	Purchases A/c Dr. CGST Input A/c Dr. SGST/UTGST Input A/c Dr. To Cash/Bank/Supplier A/c
Purchase of Goods (From Another State/UT)	Purchases A/c Dr. IGST Input A/c Dr. To Cash/Bank/Supplier A/c
Sale of Goods (Within Same State/UT)	Cash/Bank/Customer A/c Dr. To Sales A/c To CGST Output A/c To SGST/UTGST Output A/c
Sale of Goods (To Another State/UT)	Cash/Bank/Customer A/c Dr. To Sales A/c To IGST Output A/c
Adjustment of Credit Available Against Liability of GST	IGST Output A/c Dr. To IGST Input A/c To CGST Input A/c To SGST/UTGST Input A/c
	CGST Output A/c Dr. To IGST Input A/c To CGST Input A/c

Type of Transaction	Entry
	SGST/UTGST Output A/c Dr. To IGST Input A/c To SGST/UTGST Input A/c
Deposit of Liability of GST	IGST Output A/c Dr. CGST Output A/c Dr. SGST/UTGST Output A/c Dr. To Cash/Bank A/c
Reversal of Input GST Credit	Input GST accounts (IGST/CGST/SGST/UTGST) credited along with normal entry in case of reversal

- o **Miscellaneous Items Treatment**

Type of Transaction	Entry
Miscellaneous Incomes/Receipts	Cash A/c Dr. To Misc. Income/Receipt A/c
Miscellaneous Expenses/Payments	Misc. Expense/Payment A/c Dr. To Cash/Bank A/c

Accounting Equation

- o **Formula**

Assets = Liabilities + Capital

Category	Description
Accounting Equation	Assets = Liabilities + Owner's Equity
Resources (Assets)	Anything with economic value to the holder; can be tangible (e.g., land, machinery) or intangible (e.g., patents, copyrights)
Sources of Finance	Funds used to finance the assets, split into:

- **Equity (Owner's Capital)**	Funds invested by the owners in the business
- **Liabilities**	Financial obligations of the business to external parties (e.g., loans, payables)
Tangible Assets	Physical assets like land, buildings, machinery, stock, cash, etc.
Intangible Assets	Non-physical assets like patents, trademarks, copyrights, etc.