

Recording of Transactions — Journal

Kerala · Class 11 · Accountancy — exam notes

The journal is the book of original entry — the first place a transaction is written down, in debit-and-credit form, with a narration explaining it. This chapter covers source documents, the two approaches to deciding debit and credit (traditional golden rules and the modern approach), the five-column journal format, compound entries and the opening entry.

Key terms & definitions

Journal

The book of original (prime) entry in which every transaction is first recorded in chronological order, showing the accounts debited and credited.

Journalising

The act of analysing a transaction and recording it in the journal as a debit and an equal credit.

Narration

A short explanation written in brackets below each journal entry stating why the entry was made. It is part of the entry, not optional.

Double-entry system

The system under which every transaction is recorded in at least two accounts, with total debits always equal to total credits.

Debit (Dr.)

The left-hand side of an account. It records increases in assets and expenses, and decreases in liabilities, capital and income.

Credit (Cr.)

The right-hand side of an account. It records increases in liabilities, capital and income, and decreases in assets and expenses.

Personal Account

An account of a person, firm or institution — Ramesh A/c, Kerala Bank A/c, a debtor or creditor.

Real Account

An account of an asset or property — Cash A/c, Furniture A/c, Building A/c, Purchases A/c.

Nominal Account

An account of an expense, loss, income or gain — Rent A/c, Salary A/c, Commission Received A/c.

Compound (combined) entry

A single journal entry involving more than two accounts, used when several transactions occur on the same date or one transaction affects several accounts.

Opening entry

The entry passed on the first day of a new accounting year bringing forward last year's assets (debited) and liabilities and capital (credited).

Ledger Folio (L.F.)

The column in the journal recording the page number of the ledger to which the entry has been posted — it links the two books.

Why the journal exists

- A stationery shop in Thrissur sees money in, money out and goods moving every day. Without a systematic record the owner soon loses track of what is owned, owed and earned.
- The journal captures each transaction ONCE, in date order, with both sides of its effect.
- It is called the book of ORIGINAL ENTRY because it is where a transaction enters the accounting system.
- From the journal, entries are later POSTED to the ledger — the journal is the source, the ledger is the organiser.

Source documents — where an entry starts

- Nothing is journalised without evidence. The document is the proof behind the entry.
- CASH MEMO: proof of a cash sale or cash purchase.
- INVOICE / BILL: proof of a credit sale (to the seller) or credit purchase (to the buyer).
- RECEIPT: proof that cash or cheque has been received.
- DEBIT NOTE: sent when returning goods to a supplier, reducing what we owe him.
- CREDIT NOTE: sent when a customer returns goods to us, reducing what he owes us.
- VOUCHER: the internal document, prepared from the above, that authorises the entry.

The double-entry principle

- Every transaction affects AT LEAST two accounts.
- The total debited must always equal the total credited — this is not a coincidence, it is the dual aspect concept in action.
- Debit and credit here mean LEFT and RIGHT. They do not mean 'increase' and 'decrease' by themselves.
- Because debits always equal credits, a trial balance can later be used to test arithmetical accuracy.

Traditional approach — the three golden rules

- PERSONAL accounts: Debit the RECEIVER, Credit the GIVER.
- REAL accounts: Debit what COMES IN, Credit what GOES OUT.
- NOMINAL accounts: Debit all EXPENSES AND LOSSES, Credit all INCOMES AND GAINS.
- Step 1 identify the two accounts; Step 2 classify each as personal, real or nominal; Step 3 apply the matching rule.
- Example — paid salary ₹8,000 in cash: Salary (nominal, an expense) is debited; Cash (real, goes out) is credited.

Modern approach — by type of account

- ASSETS: increase → Debit; decrease → Credit.
- EXPENSES: increase → Debit.
- LIABILITIES: increase → Credit; decrease → Debit.
- CAPITAL: increase → Credit; decrease (drawings, loss) → Debit.
- INCOME / REVENUE: increase → Credit.
- Memory aid: assets and expenses behave the same way (debit to increase); liabilities, capital and income behave the same way (credit to increase).
- Both approaches always give the SAME entry — use whichever you find quicker, but be consistent within an answer.

The journal format

- Five columns: DATE | PARTICULARS | L.F. | DEBIT AMOUNT (₹) | CREDIT AMOUNT (₹).
- In Particulars, the account debited is written on the first line, ending with 'Dr.'
- The account credited is written on the next line, indented, preceded by 'To'.
- Below that, in brackets, comes the NARRATION.
- A thin line is drawn across the Particulars column to separate one entry from the next.
- The L.F. column stays blank until the entry is actually posted to the ledger.

Worked entries — Shruti's textbook shop, Kochi

- 1 June: started business with ₹2,00,000 cash → Cash A/c Dr. ₹2,00,000 / To Capital A/c ₹2,00,000. (Cash comes in; the owner is the giver.)
- 1 June: bought 500 books for ₹50,000 cash → Purchases A/c Dr. ₹50,000 / To Cash A/c ₹50,000. (Goods bought for resale go to PURCHASES, never to 'Books A/c'.)
- Later: received ₹15,000 cash for books sold → Cash A/c Dr. ₹15,000 / To Sales A/c ₹15,000.
- Note the pattern: in every entry the debit total equals the credit total.

Goods versus assets — a constant source of error

- Items bought FOR RESALE are goods → use the PURCHASES account.
- Items bought FOR USE in the business are assets → use the asset's own account.
- A bookshop buying books for resale debits Purchases. The same bookshop buying a computer for the counter debits Computer A/c.
- Similarly, goods sold are credited to SALES, while an old asset sold is credited to that asset's account — not to Sales.

Compound (combined) entries

- Used when one transaction affects more than two accounts, or several transactions of the same date are combined.
- Example: goods worth ₹10,000 and furniture worth ₹5,000 bought in one payment of ₹15,000 →
- Purchases A/c Dr. ₹10,000
- Furniture A/c Dr. ₹ 5,000
- To Cash A/c ₹15,000
- The rule is unchanged: total debits must equal total credits.

The opening entry

- Passed on the first day of a new accounting year to bring in last year's closing balances.
- ALL ASSETS are DEBITED (assets carry debit balances).
- ALL LIABILITIES and CAPITAL are CREDITED.
- If capital is not given, it is the balancing figure: $\text{Capital} = \text{Total Assets} - \text{Total Liabilities}$.
- Narration: '(Being the balances brought forward from the previous year)'.

Trade discount and cash discount

- TRADE DISCOUNT is deducted on the invoice itself. Only the NET amount is journalised — trade discount never appears as a separate account.
- CASH DISCOUNT is allowed for prompt payment and IS recorded: Discount Allowed (an expense) when we give it, Discount Received (an income) when we get it.
- Example: goods listed ₹10,000 with 10% trade discount → record the purchase at ₹9,000.
- If ₹9,000 is then settled at ₹8,800 for early payment, the ₹200 is Discount Received.

Three mistakes to avoid

- The journal and the ledger are NOT the same book in different formats. Every transaction goes through BOTH — journal first, then posted to the ledger.
- In a journal entry the debit and credit amounts MUST be equal. They are not meant to differ 'to show movement'.
- The narration is not optional. Omitting it loses marks even when the entry itself is correct.

Formulas & formats

- Journal format:

DATE	PARTICULARS	L.F.	DEBIT ₹	CREDIT ₹
	X A/c	Dr.	10,000	
	To Y A/c			10,000
	(Being narration)			

- Traditional golden rules:

PERSONAL : Debit the receiver, Credit the giver

REAL : Debit what comes in, Credit what goes out

NOMINAL : Debit expenses and losses, Credit incomes and gains

- Modern approach:

Assets ↑ Dr. / ↓ Cr.

Expenses ↑ Dr.

Liabilities ↑ Cr. / ↓ Dr.

Capital ↑ Cr. / ↓ Dr.

Income ↑ Cr.

- Opening entry:

All Assets A/c Dr.

To All Liabilities A/c

To Capital A/c

(Capital = Total Assets - Total Liabilities, if not given)

- Discounts:

Trade discount → deduct on the invoice; record NET amount only, no separate account

Cash discount → record as Discount Allowed (expense) or Discount Received (income)

Important questions & model answers

2 marks What is a journal? Why is it called the book of original entry?

- A journal is the book in which every business transaction is recorded first, in chronological order, showing the account to be debited, the account to be credited and a narration.
- It is called the book of original entry because a transaction enters the accounting records here for the first time, before being posted to the ledger.

3 marks State the three golden rules of accounting with one example each.

- PERSONAL ACCOUNT — Debit the receiver, credit the giver. Example: cash paid to Ramesh → Ramesh A/c Dr., To Cash A/c.
- REAL ACCOUNT — Debit what comes in, credit what goes out. Example: furniture bought for cash → Furniture A/c Dr., To Cash A/c.
- NOMINAL ACCOUNT — Debit all expenses and losses, credit all incomes and gains. Example: rent paid → Rent A/c Dr., To Cash A/c.

5 marks Journalise: (i) Shruti started business with ₹2,00,000 cash. (ii) Purchased 500 books for ₹50,000 cash. (iii) Received ₹15,000 cash for books sold.

- (i) Cash A/c Dr. ₹2,00,000 / To Capital A/c ₹2,00,000 — (Being business started with cash)
- (ii) Purchases A/c ... Dr. ₹50,000 / To Cash A/c ₹50,000 — (Being books purchased for cash)
- (iii) Cash A/c Dr. ₹15,000 / To Sales A/c ₹15,000 — (Being books sold for cash)
- Note: books bought for RESALE are debited to Purchases A/c, not to a 'Books A/c'.
- In each entry the debit total equals the credit total, satisfying the double-entry principle.

3 marks What is a compound journal entry? Give an example.

- A compound (combined) journal entry is one which involves more than two accounts — used when a single transaction affects several accounts or several transactions of the same date are recorded together.
- Example: goods worth ₹10,000 and furniture worth ₹5,000 purchased by a single cash payment of ₹15,000.
- Purchases A/c Dr. ₹10,000; Furniture A/c Dr. ₹5,000; To Cash A/c ₹15,000.
- The total of the debits (₹15,000) equals the credit, so the double-entry rule is preserved.

4 marks Distinguish between trade discount and cash discount.

- PURPOSE: Trade discount is a reduction in the list price allowed for bulk buying or to a trader; cash discount is allowed to encourage prompt payment.
- TIME: Trade discount is given at the time of sale or purchase; cash discount is given at the time of payment.
- RECORDING: Trade discount is deducted on the invoice and is NOT recorded separately — only the net amount is journalised. Cash discount IS recorded, as Discount Allowed or Discount Received.
- NATURE: Trade discount never appears in the books; cash discount appears as a nominal account in the Profit & Loss Account.

4 marks Pass the opening entry: Cash ₹20,000, Stock ₹35,000, Furniture ₹15,000, Creditors ₹12,000, Bank Loan ₹18,000.

- Total Assets = 20,000 + 35,000 + 15,000 = ₹70,000. Total Liabilities = 12,000 + 18,000 = ₹30,000.
- Capital (balancing figure) = ₹70,000 – ₹30,000 = ₹40,000.
- ENTRY: Cash A/c Dr. ₹20,000; Stock A/c Dr. ₹35,000; Furniture A/c Dr. ₹15,000;
- To Creditors A/c ₹12,000; To Bank Loan A/c ₹18,000; To Capital A/c ₹40,000.
- (Being the balances brought forward from the previous year)
- Check: debits ₹70,000 = credits ₹70,000. ✓

2 marks Why is a narration written below a journal entry?

- The narration is a brief explanation, written in brackets, stating the reason for the entry.
- It allows any person examining the books later — an auditor, a partner or the proprietor — to understand the purpose of the entry without going back to the source document.
- It is treated as an essential part of the entry; an entry without a narration is regarded as incomplete.

3 marks A bookshop buys books for resale and also buys a computer for its billing counter. How is each recorded, and why differently?

- The books are goods purchased for RESALE, so they are debited to the PURCHASES ACCOUNT.
- The computer is bought FOR USE in the business, not for resale, so it is debited to the COMPUTER ACCOUNT as a fixed asset.
- The distinction matters because purchases are charged to the Trading Account in arriving at gross profit, whereas a fixed asset appears in the Balance Sheet and is depreciated over its useful life.
- Treating the computer as a purchase would understate profit and omit an asset.

4 marks Name any four source documents and state what each proves.

- CASH MEMO — proof of a purchase or sale made for cash.
- INVOICE / BILL — proof of a credit purchase or credit sale.
- RECEIPT — proof that cash or a cheque has been received.
- DEBIT NOTE — prepared when goods are returned to a supplier, reducing the amount payable to him.
- CREDIT NOTE — prepared when a customer returns goods, reducing the amount receivable from him.

4 marks Explain the modern (accounting-equation) approach to debit and credit.

- Under the modern approach all accounts are classified as assets, liabilities, capital, income or expenses, and the rule follows from the accounting equation.
- ASSETS: debited when they increase, credited when they decrease.
- EXPENSES: debited when they increase.
- LIABILITIES, CAPITAL and INCOME: credited when they increase, debited when they decrease.
- The logic is that assets and expenses sit on the left of the equation, while liabilities, capital and income sit on the right.
- This approach gives exactly the same entry as the traditional golden rules.

Exam tips

- Always write 'Dr.' after the account debited and 'To' before the account credited — the format itself carries marks.
- Never omit the narration, even when short of time. A correct entry without narration is treated as incomplete.
- Goods bought for resale go to PURCHASES A/c. Writing 'Books A/c' or 'Goods A/c' is a standard and costly error.
- For trade discount, journalise only the NET amount; never open a Trade Discount account.
- In an opening entry, if capital is not given, compute it as Total Assets – Total Liabilities and state that it is the balancing figure.
- Total your debit and credit columns before moving on — if they differ, one side of a transaction has been missed.
- Choose either the golden rules or the modern approach and stay with it through the whole answer; mixing the two confuses the examiner.

Quick revision

- Journal = book of original entry; ledger = book of final entry.
- Every entry: account debited (Dr.) first, account credited ('To') second, narration in brackets.
- Golden rules — Personal: debit receiver, credit giver. Real: debit what comes in, credit what goes out. Nominal: debit expenses/losses, credit incomes/gains.
- Modern rules — Assets ↑Dr, Expenses ↑Dr, Liabilities ↑Cr, Capital ↑Cr, Income ↑Cr.
- Bought for resale → Purchases A/c. Bought for use → the asset's own account.
- Compound entry: more than two accounts, debits still equal credits.
- Opening entry: assets Dr., liabilities and capital Cr.; capital is the balancing figure.
- Trade discount is never recorded; cash discount is recorded as Discount Allowed / Received.
- Source documents: cash memo, invoice, receipt, debit note, credit note, voucher.