

Prepared by Dr. Afzalur Rahman



B.S. Abdur Rahman
Crescent

Institute of Science & Technology
Deemed to be University u/s 3 of the UGC Act, 1956

Module 1
Chapter 5
Journal and Ledger

CHAPTER AT A GLANCE (Chapter 5)

5.01 Meaning of an Account

5.02 Meaning of Debit and Credit

5.03 Classification of Accounts

5.04 Significance of Debit and credit in Accounts

5.05 Journal

5.05.01 Steps and Rules of Journalising

5.05.02 Totaling and Carry Forward.

5.05.03 Simple and Compound Journal Entries

5.06 Opening Entry

5.07 Sub-division of Journal

CHAPTER AT A GLANCE (Chapter 5)

5.08 Ledger

5.08.01 Meaning

5.08.02 Form of a Ledger

5.08.03 Mechanics of Posting

5.08.04 Balancing of Ledger Accounts

5.01

Meaning of an Account

An account is a

- summarised record of relevant transactions
- at one place relating to a particular head.
- It records not only the amount of transactions but also their effect and direction.

An account has column for date, particulars, folio number, debit amount and credit amount.

[Specimen of Account](#)

NAME OF THE ACCOUNT

Date	Particulars	J.F.	Amount (Debit)	Amount (Credit)
Date of transaction	Name of the Other Account	Page or Reference Number of the Sub-journal where it was first recorded.	Amount of the transaction	Amount of the transaction

5.02

Meaning of Debit and Credit

Under double entry system of book keeping each transaction has two aspects.

- **Debit Aspect and Credit Aspect**
- Debit and credit aspects of a transaction form the basis of double entry system.

5.02

Meaning of Debit and Credit

An item recorded

- on the debit side of an account is said to be debited to the account and
- a balance resting on this side is said to be a debit balance.

An item recorded

- on the credit side of an account is said to be credited to the account and
- the balance resting on this side is said to be a credit balance.

5.03

CLASSIFICATION OF ACCOUNTS

Accounts can be classified in two ways:

1. Traditional Classification
2. Modern Classification

5.03

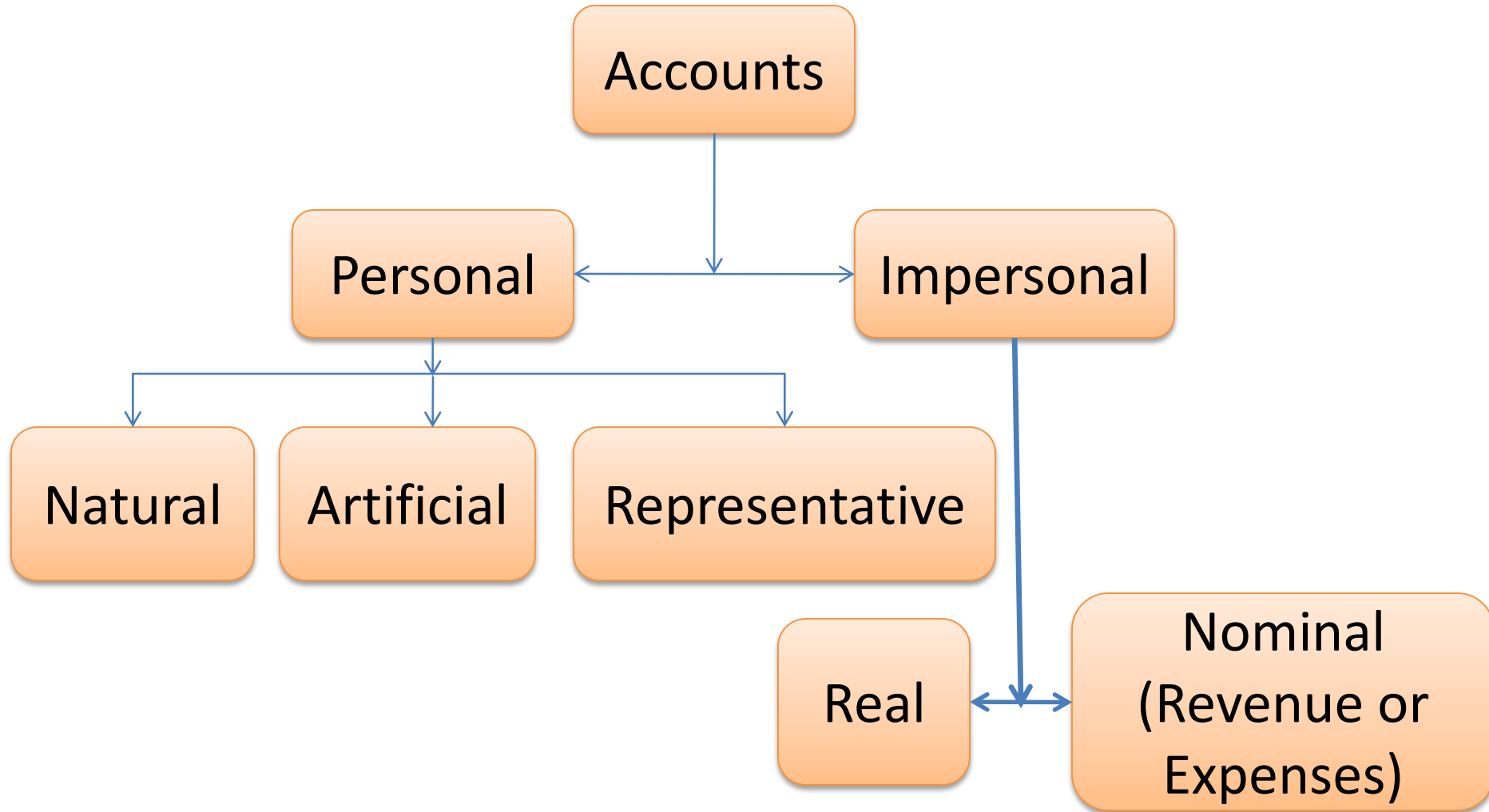
CLASSIFICATION OF ACCOUNTS

1. Traditional Classification of Accounts

- This is a very old system of classifying accounts. Under this system, accounts are classified into two groups which is classified in the following charts

5.03

CLASSIFICATION OF ACCOUNTS



5.03

CLASSIFICATION OF ACCOUNTS

(i) Personal Accounts

- Accounts which relate to persons, i.e., individuals, firms, companies,

Examples

- Ram & Co., Debtors or Creditors , Capital Account, etc.

5.03

CLASSIFICATION OF ACCOUNTS

- A Capital Account is the account of the proprietor and, therefore, is also personal but adjustments on account of profits and losses are made in it. Similarly,
- a Drawings Account is also a Personal Account.
- The main purpose of preparing a Personal Account is to ascertain the balance due to or due from persons or organisations.

5.03

CLASSIFICATION OF ACCOUNTS

(ii) Impersonal Accounts

- Accounts which are not personal such as Machinery Account, Cash Account, Rent Account, etc. , are termed as 'Impersonal Accounts'.

These can be further sub-divided into two accounts:

- A. Real Accounts
- B. Nominal Accounts

5.03

CLASSIFICATION OF ACCOUNTS

(a) Real Accounts

- The accounts which relate to tangible or intangible assets of the firm (excluding debtors) are termed as Real Accounts.

Examples (Tangible Assets)

- Land, building, investments, plant and machinery, stock or cash in hand.

Examples (Intangible Assets)

- Goodwill, patents and trademark.

5.03

CLASSIFICATION OF ACCOUNTS

(b) Nominal (or Revenue/Expense) Accounts

- Accounts which relate to expenses, losses, gains, revenue, etc., are termed as Nominal Accounts.

Examples

- Salary Account, Purchases Account, Interest paid Account, Sales Account and commission received Account.

5.03

CLASSIFICATION OF ACCOUNTS

- The net result of all the Nominal Accounts is profit or loss which is transferred to the Capital Account.
- The balance of Nominal Account is never taken to next years' book.
- When some prefix or suffix is added to a Nominal Account, it becomes a Personal Account.

[Table of Prefix and Suffix](#)

Table of Prefix and Suffix

Nominal Account	Personal Account
1. Interest A/C	Outstanding Interest A/C, Interest Received in Advance A/C, Prepaid Interest A/C, Outstanding Rent A/C
2. Rent A/C	Outstanding Rent A/C, Prepaid Rent A/C
3. Salary A/C	Outstanding Salary A/C, Prepaid Salary A/C
4. Commission A/C	Outstanding Commission A/C, Prepaid Commission A/C

5.03

CLASSIFICATION OF ACCOUNTS

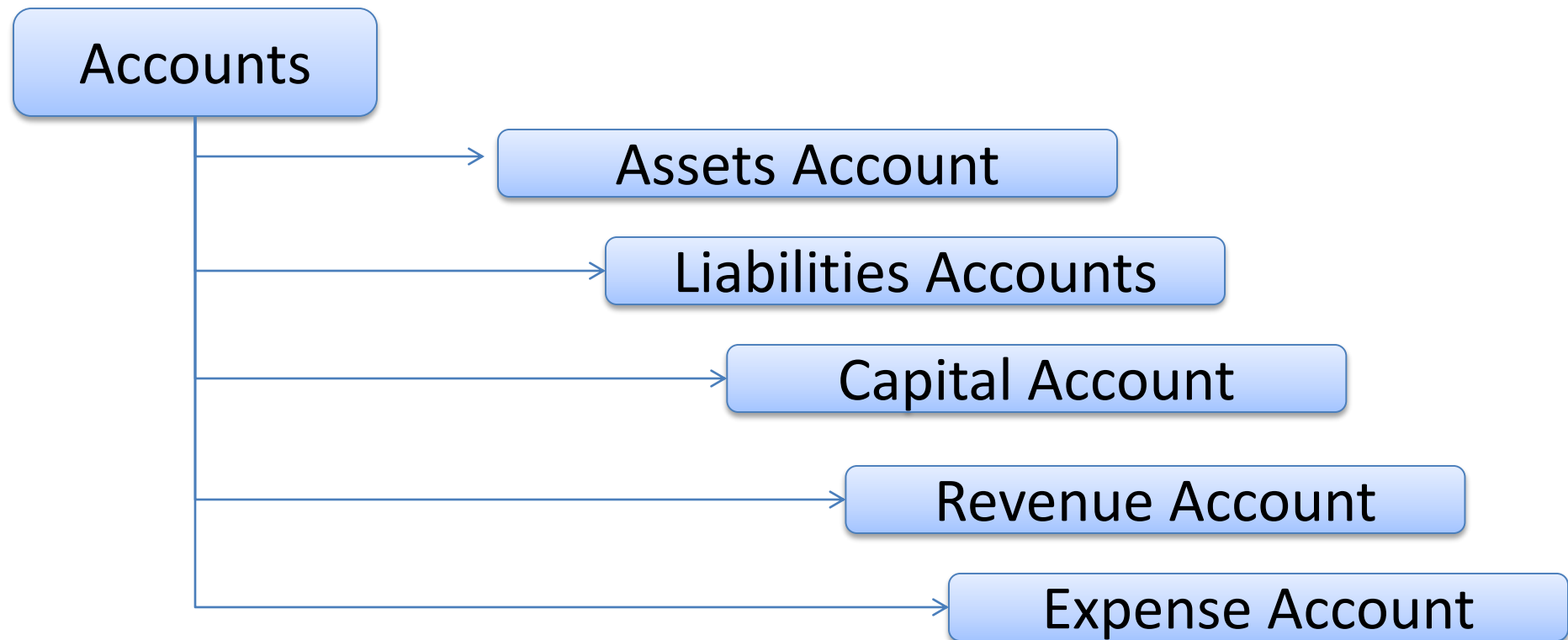
Rules of Debit and Credit (Traditional) at a Glance

Types of Account	Account to be Debited	Account to be Credited
1. Personal A/c	Receiver	Giver
2. Real A/c	What Comes in	What Goes Out
3. Nominal A/c	Expenses & Loss	Income & Gain

5.03

CLASSIFICATION OF ACCOUNTS

The modern approach, classifies accounts into five categories



5.03

CLASSIFICATION OF ACCOUNTS**RULES FOR DEBIT AND CREDIT**

Types of Account	Accounts to be Debited	Accounts to be Credited
1. Assets A/c	Increase	Decrease

Assets

Debit
Increase (+)

Credit
Decrease (-)

5.03

CLASSIFICATION OF ACCOUNTS**RULES FOR DEBIT AND CREDIT**

Types of Account	Accounts to be Debited	Accounts to be Credited
2. Liabilities	Decrease	Increase

Liabilities

Debit
Decrease (-)

Credit
Increase (-)

5.03

CLASSIFICATION OF ACCOUNTS**RULES FOR DEBIT AND CREDIT**

Types of Account	Accounts to be Debited	Accounts to be Credited
3. Capital	Decrease	Increase

Capital

Debit
Decrease(-)

Credit
Increase (+)

5.03

CLASSIFICATION OF ACCOUNTS**RULES FOR DEBIT AND CREDIT**

Types of Account	Accounts to be Debited	Accounts to be Credited
4. Revenue	Decrease	Increase

Revenue

Debit
Decrease(-)

Credit
Increase (+)

5.03

CLASSIFICATION OF ACCOUNTS**RULES FOR DEBIT AND CREDIT**

Types of Account	Accounts to be Debited	Accounts to be Credited
5. Expense (Losses)	Increase	Decrease

Expense (Losses)

Debit
Increase (+)

Credit
Decrease (-)

5.04

SIGNIFICANCE OF DEBIT AND CREDIT IN ACCOUNTS:

1. Personal Accounts:

- Debit in Personal Accounts means that the person whose account is being debited owes the specified amount to the organisation.
- In case of credit sale, the account of customer is debited
- because consequent to the sale he owes the amount of sale to the business.

5.04

SIGNIFICANCE OF DEBIT AND CREDIT IN ACCOUNTS:

If the account of the customer is already in existence,

- debit to his account implies he owes that much amount more.
- A debit to the account of a creditor implies
- that the amount due to that person has decreased by the amount debited to his account, e.g., on payment.

5.04 SIGNIFICANCE OF DEBIT AND CREDIT IN ACCOUNTS:

Credit to Personal Account means that

- the business owes the specified amount to the person whose account is credited.
- In case of credit purchases, the account of the supplier is credited.
- If the amount of a debtor is credited,
- it indicates decrease in the amount owed by the customers.

5.04 SIGNIFICANCE OF DEBIT AND CREDIT IN ACCOUNTS:

2. Real Accounts

- Debit in Real Account indicates purchase of an asset.
- A further debit means more acquisition of the asset.
- A credit in Real Account indicates that a part or whole of the asset has been sold or has been depreciated.
- A credit to Real Account reduces the value of asset.

5.04 SIGNIFICANCE OF DEBIT AND CREDIT IN ACCOUNTS:

3. Nominal Accounts

Debit in Nominal Accounts indicates that

- expenditure has been incurred or
- some loss has occurred or
- some income has reduced by the amount of debit.
- Any expenditure on account of rent, salary, commission, interest is incurred, these accounts are debited.
- Credit in Nominal Account indicates that income or profit has been earned or
- expenditure or loss has decreased by the amount of credit.

5.05

JOURNAL

Meaning

- Journal is that book of accounts in which
- transactions are originally recorded in a chronological order, i.e., as they occur.
- It is the first book of account in which the transactions are recorded.
- An entry made in the Journal is known as a '**Journal Entry**'.

5.05

JOURNAL

- The process of recording a transaction in a Journal is known as '**Journalising**'.
- **The transfer of** Journal entry to a Ledger account is known as 'Posting'.

[Specimen of Journal](#)

Journal

Date (1)	Particular (2)	L.F (3)	Dr. (Rs.) (4)	Cr.(Rs.) (5)
Date of Transaction	Name of the Accounts debited and credited. Below them narration is given.	Page no. to Which Transaction is posted	Amount Debited	Amount Credited

5.05

JOURNAL

5.05.01 STEPS IN JOURNALISING OR RULES OF JOURNALISING

1. Ascertain what accounts are affected by a transaction.
2. Ascertain what is the nature of the account affected.
3. Ascertain which account is to be debited and which account is to be credited by applying the rules of debit and credit.

5.05

JOURNAL

4. Ascertain the amount by which the accounts are to be debited and credited.
5. Record the date and month of the transaction in the 'Date' column and the year at the top.
6. Record in the 'Particulars' column the name of the account to be debited.
7. Write the amount to be debited in the 'Debit Amount' column.

5.05

JOURNAL

8. Record in the 'Particulars' column the name of the account to be credited.
9. Write the amount to be credited in the 'Credit Amount' column.
10. Record a brief description of the transaction.
This brief description of the transaction is called **narration**.
11. Draw a line across the 'Particulars' column to separate one Journal entry from the other.

5.05

JOURNAL

Journal columns will become clear from an entry given below

Date	Particulars	L. F.	Dr. (Rs.)	Cr. (Rs.)
2010 April 5	Cash A/c ...Dr. To Mohan (Being cash received from Mohan due from him)	53* 37 *	2500	2500

*53 indicates the page in the ledger where cash account will be found;

*37 shows the page where Mohan's account has been written up.

5.05

JOURNAL

5.05.02 Totaling and Carry Forward.

- Amounts of the debit and credit columns on each page are totalled and carried forward to the next page.
- In the Particulars column, the words 'Total c/f' (carried forward) are written.

5.05

JOURNAL

- It indicates that the total has been carried forward to next page.
- In the next page, in the Particulars column, the words 'Total b/f' (brought forward) are written.
- It indicates that the total has been brought forward from the previous page.

5.05

JOURNAL

5.05.03 Simple and Compound Journal Entries

Journal entries are of two types namely:

1. Simple Entry and
2. Compound Entry.

5.05

JOURNAL

1. Simple Entry:

A simple entry is one in which only two accounts are affected, viz.,

- one account is debited and
- another is credited with an equal amount.

2. Compound Entry

A compound entry is one in which

- two or more accounts are debited and
- one or more accounts are credited.

5.06

OPENING ENTRY

Opening Entry

The entry passed to record the closing balances of the previous year is called the **Opening Entry**.

- While passing an opening entry all Assets Accounts are debited and
- all Liabilities Accounts are credited.

5.07

SUB-DIVISION OF JOURNAL

Journal is sub-divided into subsidiary Journal books.

These are

- **Cash Book** – to record cash and bank transactions.
- **Purchases Book** – to record credit purchases of goods dealt in or used in manufacturing.
- **Purchase Returns Book** – to record return of purchased goods.
- **Sales Book** – to record credit sale of goods dealt in.

5.07

SUB-DIVISION OF JOURNAL

- **Sales Returns Book** – to record return of goods sold.
- **Bills Receivable Book** – to record Bills Received.
- **Bills Payable Book** – to record Bills Payable.
- **Journal Proper** – to record all other transactions that are not recorded in any of the above sub-journals.

5.08

LEDGER

5.08.01 Meaning

A Ledger can be defined as

- a “book or register which contains,
- in a summarised and classified form,
- a permanent record of all transactions.”
- It is an important book of accounts, as the Trial Balance is drawn from it and with the help of Trial Balance Final Account is prepared.

[Specimen of Ledger](#)

NAME OF THE ACCOUNT

Date	Particulars	J.F.	Amount (Debit)	Amount (Credit)
Date of transaction	Name of the Other Account	Page or Reference Number of the Sub-journal where it was first recorded.	Amount of the transaction	Amount of the transaction

Alternate form (Only for understanding)

<i>Dr.</i>		NAME OF THE ACCOUNT				<i>Cr.</i>	
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
Date of the transaction	Name of the other account	Page or Reference Number of the Subsidiary Book, where the entry was first recorded.	Amount of the transaction	Date of the transaction	Name of the other account	Page or Reference Number of the Subsidiary Book, where the entry was first recorded.	Amount of the transaction

5.08

LEDGER

5.08.02 THE MECHANICS OF POSTING

1. Posting of Account debited in a Journal entry

- Identify in the Ledger the account to be debited.
- Enter the date of the transaction in the 'Date' column on the debit side of the account.
- Write the name of the account which has been credited in the respective entry in the 'Particulars Column' on the debit side of the account as 'To (name of account credited)'.

5.08

LEDGER

- Record the page number of the Journal where the entry exists in the Journal Folio (J.F.) column.

- Enter the relevant amount in the 'Amount' column on the debit side.

5.08

LEDGER

2. Posting an Account credited in a Journal entry:

- Identify in the Ledger the account to be credited.
- Enter the date of the transaction in the 'Date' column on the credit side.
- Write the name of the account which has been debited in the respective entry in the 'Particulars Column' on the credit side of the account as 'By (name of account debited)'.

5.08

LEDGER

- Record the page number of the Journal where the entry exists in the Journal folio (J.F.) column.
- Enter the relevant amount in the 'Amount' column on the credit side.

5.08

LEDGER

5.08.03 Balancing of Ledger Accounts

- After posting the transactions,
- accounts are balanced every year or
- after a certain period.

Balancing an account means

- that the two sides of account are totalled and
- the difference in total of the two sides is
- written on the side whose total is short.

<http://crescent.education/university/schools/school-of-social-sciences-and-humanities/departments-of-commerce/overview/#>



B.S. Abdur Rahman

Crescent

Institute of Science & Technology

Deemed to be University u/s 3 of the UGC Act, 1956

GST Road, Vandalur, Chennai 600 048

Thanking you