

**GANGA INSTITUTE OF TECHNOLOGY & MANAGEMENT**

**JOURNAL  
&  
CLASSIFICATION OF  
ACCOUNTS**

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# **CONTENT**

- **BASIS OF ACCOUNTING**
- **CLASSIFICATION OF ACCOUNTS**
- **RULES OF DOUBLE ENTRY SYSTEM**
- **JOURNAL**

# Basis of Accounting

- **Cash basis**

- Actual cash receipts and payments are recorded.
- Credit transactions are not recorded.

# Basis of Accounting

- **Accrual basis**

- The income whether received or not but has been earned or accrued during the period forms part of the total income of the period.
- The firm has taken benefit of a particular service, but has not paid within that period, the expenses will relate to the period in which the service has been utilized and not to the period in which payment for it is made.

# Basis of Accounting

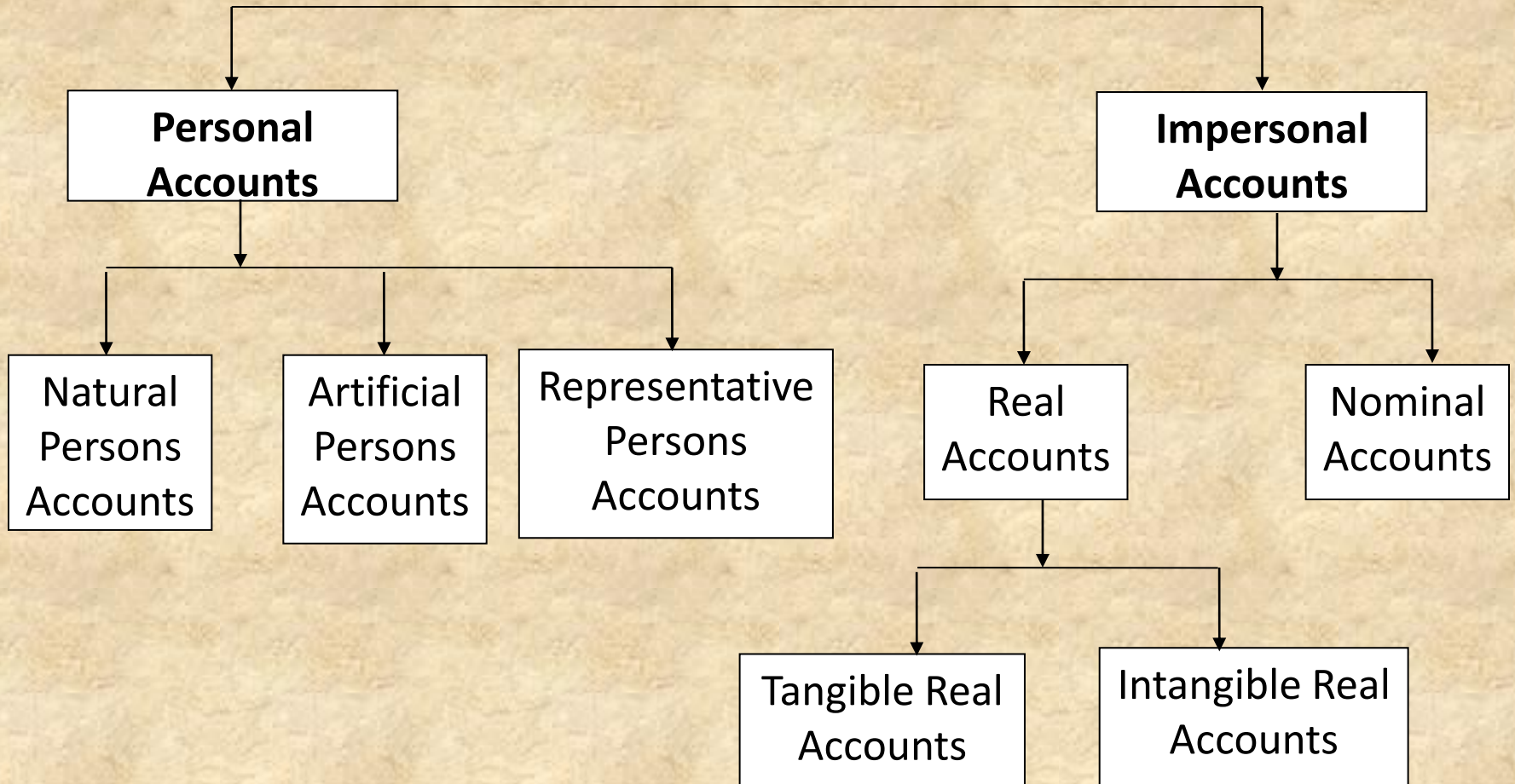
- **Mixed basis**
  - Combination of cash and accrual basis.



# System of Accounting

- **Single Entry System:** This system has no complete record of business transactions done during a specified period.
- **Double Entry System:** One account is given debit while the other account is given credit with an equal amount.

# Classification of Accounts



# Types of Accounts

- **Natural Person's Personal Account:** An account recording transactions with an individual human being is known as a natural person's Personal Account. (eg. Krishna account)
- **Artificial Person's Personal Account:** An account recording financial transactions with an artificial person created by law or otherwise is called an artificial person's personal account. (eg. VSL College)
- **Representative Person's Personal Account:** An account indirectly representing a person or persons is known as a representative account. (eg. Salaries account)
- **Tangible Real Account:** An asset which can be touched, seen, and measured. (eg. Machinery Account)
- **Intangible Real Account:** An asset which can't be touched physically but can be measured in value. (eg. Goodwill)



# Rules of Double Entry System

Accounts	Rules
<b>Personal</b>	<ul style="list-style-type: none"><li>• Debit the receiver</li><li>• Credit the giver</li></ul>
<b>Real</b>	<ul style="list-style-type: none"><li>• Debit what comes in</li><li>• Credit what goes out</li></ul>
<b>Nominal</b>	<ul style="list-style-type: none"><li>• Debit all expenses and losses</li><li>• Credit all incomes and gains</li></ul>

# Source Documents

- ***Cash Memo:*** When goods are sold or purchased for cash, the firm receives or gives cash memos which provide details regarding cash transactions.
- ***Invoice or Bill:*** This document is prepared when goods are sold or purchased on credit.
- ***Receipt:*** When a firm receives cash from customers it issues a receipt which is a proof for receiving cash.
- ***Pay in Slip:*** This is a form available from a bank for depositing cash or cheque in a bank account.

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# Source Documents

- ***Cheque:*** It is a document in writing drawn upon a specified banker and payable on demand.
- ***Debit Notes:*** For the party from whom the money is recoverable this document becomes debit note.
- ***Credit Note:*** For the party who is to recover the amount the document becomes credit note. When goods returned from the customer, a proper credit note should be sent to him.

# Journal

- The word journal is derived from the Latin word '*Journ*' which means *a day*.
- Journal means a day book where in day-to-day business transactions are recorded in a chronological order.
- The process of recording a transaction in the journal is called *Journalisation*.
- The entries made in the book are called *journal entries*.

# Performa of Journal

Date	Particulars	L.F.	Dr. ()	Cr. ()
XX-XX-XXXX	Name of the a/c Dr. To Name of the a/c (being -----)		XXXX	XXXX



# Items in Journal

- **Date:** The first column deals with the date of transaction.
- **Particulars:** In the first line write about debit aspect and in the second line write about credit aspect. In the third line write regarding brief explanation of the entry (narration).
- **Ledger Folio (L.F.):** It denotes page number on which its journal entry is found.
- **Debit:** Fourth column deals with the amount to be debited.
- **Credit:** Fifth column deals with the amount to be credited.

# Points to be noted before Journalising

- *Compound journal entry*
- *Cash or credit transaction*
- *Cash discount*
- *Trade discount*
- ***Purchase of shares:*** When shares or securities are purchased, the entry is made at market value and not at face value. Brokerage paid on the purchase of such investment is also added in the amount of investment.
- ***Sale of shares:*** If shares or securities are sold, the entry should be passed at market value less brokerage, if any, paid on such shares.

# Points to be noted before Journalising

- *Expenses incidental to the purchase of Fixed Assets*
- *Insurance of Life Policy (Debited to Drawings a/c)*
- *Goods given as charity*
- *Goods distributed as free samples*
- *Loss of stock by Fire*
- *Interest due on Loans (debited to interest account and credited to loan account)*

# Advantages of Journal

- It provides a chronological (date wise) order of all transactions and hence provides permanent record.
- It provides the information of debit and credit in an entry and an explanation to make it understandable properly.
- It reduces the possibility of error as both aspects of a business transaction are written side by side.