

Module 2 :-Accounting Process

What is a journal entry?

Journal entries are how transactions get recorded in your company's books on a daily basis. Every transaction that gets entered into your general ledger starts with a journal entry that includes the date of the transaction, amount, affected accounts, and description. The journal entry may also include a reference number, such as a check number.

If you use accounting software or [outsource your accounting](#), you may not see journal entries, but they're still the key to ensuring your books are accurate and up to date. Think of them like rough notes you keep about your finances.

What are journal entries for?

Once business transactions are entered in your accounting journals, they're posted to your [general ledger](#). Think of "posting" as "summarizing." The general ledger summarizes all your journal entries.

Eventually, your general ledger is used to prepare your financial statements—the [income statement](#), [balance sheet](#), and (depending on what type of accounting you use) [cash flow statement](#).

Financial statements are the key to tracking your business performance and accurately filing your taxes. They let you see, at a glance, how your business is performing.

Double entry bookkeeping

There are two methods of bookkeeping (and therefore, two methods of making journal entries): single, and double-entry. The most common form of bookkeeping today is [double entry](#). We'll be using double entry examples to explain how journal entries work.

If you're totally new to double-entry accounting, and you don't know the difference between debits and credits, pause here. Then check out our [visual guide to debits and credits](#). It'll teach you everything you need to know before continuing with this article.

Examples of common journals

The precise journals you use for your bookkeeping will depend on what kind of business you run. Broadly, they're split into two categories: The **general journal**, and the **special journals**.

The **general journal** contains entries that don't fit into any of your special journals—such as income or expenses from interest. It can also be the place you record [adjusting entries](#).

The **special journals**, also referred to as accounts, are used to record the common, day-to-day transactions in your accounting system. All of your special journals are listed in your chart of accounts. Common examples include:

- **Sales**—income you record from sales
- **Accounts receivable**—money you're owed
- **Cash receipts**—money you've received
- **Sales returns**—sales you've refunded

- **Purchases**—payments you've made
- **Accounts payable**—money you owe
- **Equity**—**retained earnings** and owners' investment
- **How to Approach Journal Entries**
- A **journal** is the company's official book in which all transactions are recorded in chronological order. Although many companies use accounting software nowadays to book journal entries, journals were the predominant method of booking entries in the past. In every journal entry that is recorded, the debits and credits must be equal to ensure that the accounting equation (Assets = Liabilities + Shareholders' Equity) remains in balance.

Definition of a Journal Entry

In manual accounting or bookkeeping systems, business transactions are first recorded in a **journal**...hence the term *journal entry*.

Journal entries that are recorded in a company's *general journal* will consist of the following:

- the appropriate date
- the account(s) and amount(s) that will be debited
- the account(s) and amount(s) that will be credited
- a short description/memo/reference

The journal entries appear in a journal in order by date and are then posted to the appropriate accounts in the **general ledger**.

Computerized accounting systems will automatically record most of the business transactions into the general ledger accounts immediately after the software prepares the sales invoices, issues checks to creditors, processes receipts from customers, etc. Hence, we will not write journal entries for most of the business transactions.

Examples of Journal Entries

Even with computerized accounting systems some general journal entries are necessary.

Common general journal entries are the **adjusting entries**. For example, prior to issuing the company's financial statements there will be an adjusting entry to record depreciation. This journal entry will debit Depreciation Expense and will credit Accumulated Depreciation.

Another example of a general journal entry is the adjusting entry to **accrue interest** on a bank loan. This journal entry will debit Interest Expense and will credit Interest Payable.

Ledger Account Meaning

Ledger Account is a journal in which a company maintains the data of all the transactions and financial statement. Company's general ledger account is organized under the general ledger with the balance sheet classified in multiple accounts like assets, Accounts receivable, account payable, stockholders, liabilities, equities, revenues, taxes, expenses, profit, loss, funds, loans, bonds, stocks, salaries, wages, etc.

Ledger is a book that contains the accounts. Any financial statement related to the financial position of the company emerges only from the accounts. Thus, this ledger is known as the principal book. So, the result of all this is that it is necessary to relate all the information for any account available is from the ledger. This book of accounts is the most important book for any business and that is why it is known as the king of all books. Also, the ledger book is also known as the book of the final entry. The Ledger account is thought of the book that has all the **accounting** information of the company.

Usually, a ledger account contains many things. Some of the things include dates, particulars, amount, and J.F This specimen is standardized across all the different places in India. Types of Ledger

There are 3 types of Ledgers –

- Sales Ledger
- Purchase Ledger
- General Ledger

1. Sales Ledger – Sales Ledger is a ledger in which the company maintains the transaction of selling the products, services or cost of goods sold to customers. This ledger gives the idea of sales revenue and income statement.

2. Purchase Ledger – Purchase Ledger is a ledger in which the company organizes the transaction of purchasing the services, products, or goods from other businesses. It gives the visibility of how much amount the company paid to other businesses.

3. General Ledger – General Ledger is divided into two types – Nominal Ledger and Private Ledger. Nominal ledger gives information on expenses, income, [depreciation](#), insurance, etc. And Private ledger gives private information like salaries, wages, capitals, etc. Private ledger is not accessible to everyone.

A trial balance is a [bookkeeping](#) worksheet-like account that reflects all the credit and debit balances of all the ledger accounts. Once we prepare this statement, we can prepare the final accounts of the [company](#) on the basis of this trial balance.

One other important use of the trial balance is that it can determine the arithmetic [accuracy](#) of the accounts. So if both columns of the trial balance tally, we can be reasonably assured of the accuracy of the accounts. It does not ensure that the accounts are free of all errors but it can at least establish mathematical accuracy.

Preparation of Trial Balance

Preparation of trial balance is the third step in the accounting process. First, we record the transactions in the [journal](#). And then we post them in the general ledger. Then we prepare a trial balance to verify that the debit totals equal to the credit totals. Let us take a look at the steps in the preparation of trial balance.

1. To prepare a trial balance we need the closing balances of all the ledger accounts and the [cash book](#) as well as the bank book. So firstly every [ledger account](#) must be balanced. Balancing is the difference between the sum of all the debit entries and the sum of all the credit entries.
2. Then prepare a three column worksheet. One column for the account name and the corresponding columns for debit and credit balances.
3. Fill out the account name and the balance of such account in the appropriate debit or credit column

4. Then we total both the debit column and the credit column. Ideally, in a balanced error-free Trial balance these totals should be the same
5. Once you compare the totals and the totals are same you close the trial balance. If there is a difference we try and find and rectify **errors**. Here are some cases that cause errors in the trial balance
 - A mistake in transferring the balances to the trial balance
 - Error in balancing an account
 - The wrong amount posted in the ledger
 - Made the entry in the wrong column, debit instead of credit or vice versa
 - Mistake made in the casting of the journal or **subsidiary book**

Meaning Of Subsidiary Books

- There are numerous transactions which occur so many times in a day. It is inadequate and inconvenient to record the transaction in the book of original entry i.e. journal. Every transaction recorded in journal becomes thick, bulky, tedious and consumes more time, labour and money. So the transactions which are of repetitive nature are recorded in a separate book through special journal. Such separate book of original entry, maintained for recording the similar and repetitive types of transactions is known as subsidiary books. Also known as sub-journal or sub-division of journal, this book includes purchase book, sales book, purchase return book, sales return book and cash book.
- **Advantages of subsidiary book**
- The following are the advantages of subsidiary book:
 1. It enables the division of work among accounting personnel by assigning with separate books and it increases efficiency of personnel as they perform same activities daily.
 2. It helps to save time and labor by recording similar type of transactions in a separate book.
 3. It becomes easy to access the detailed information relating to a particular transaction as the transactions relating to one head are recorded in a separate book.
 4. It helps to install internal check system as the subsidiary book maintained by a clerk is automatically checked by another clerk.
 5. It helps to maintain accounts and thus avoids the necessity of journal entries.
 6. The existence of separate books help in the detection of errors quickly in case of disagreement of trial balance.
- **Kinds of Subsidiary Books**
- There are different kinds of subsidiary books which includes:
 1. Purchase day book
 2. Sales day book
 3. Purchase returns book
 4. Sales returns book
 5. Bills receivable books
 6. Bills payable books

- **7. Cash book.**

- **1. Purchase day book**
- Purchase day book is used for recording credit purchase of goods only. This will not record any cash purchase or credit purchase of any assets. The term goods means all the commodities and services in which the company deals in day to day activities. The preparation of purchase day book involves the Date column, Particulars column, Invoice number column, Ledger folio column, inner amount column and Amount column.

- **2. Sales day book**
- Sales day book is mainly used for recording credit sales of goods and services in an organization. This will not record any cash sales or assets sales. The ruling for the preparation of this book is same as like Purchase day book. This involves the Date column, Particulars column, Invoice number column, Ledger folio column, inner amount column and Amount column.

- **3. Purchase returns book**
- This is maintained to record the transactions of goods returned to the supplier when purchase on credit. The ruling of the preparation of purchase return book or returns outward book involves Date, Particulars, Debit note number, Ledger folio and amount column.

- **4. Sales returns book**
- This book is used to record the goods returned by the customer the goods sold on credit. The ruling of the preparation of Sales return book or returns inward book involves Date, Particulars, credit note number, Ledger folio and amount column.

- **5. Bills receivable books**
- It is used to record the transactions when the bills received from the customer for credit sales. This provides a medium for posting bills receivable transaction. The preparation of this book involves Date when received, Drawer, Acceptor, Where payable, date of bill, term, due date ledger folio, Amount, remarks columns.

- **6. Bills payable books**
- This is used to record the acceptances given to the suppliers for credit purchase. The preparation of bills payable book involves Date of acceptance, giver, payee, Where payable, date of bill, term, due date, ledger folio, Amount, remarks columns.

- **7. Cash book**
- The cash book is used to record all the receipts and payments of cash. For the preparation of cash book there are different rules are available according to the nature of business. The different forms of cash book are as follows:
 - **A) Simple Cash book:** This is the simple form of cash book.
 - **B) Two column cash book:** This type of cash book have two columns like cash column and discount column.
 - **C) Three column cash book:** This involves three columns such as Bank column, cash column and discount column.
 - **D) Petty cash book:** This is used to record petty expenses like postage, cartage, printing and stationery etc in the day to day business activities.