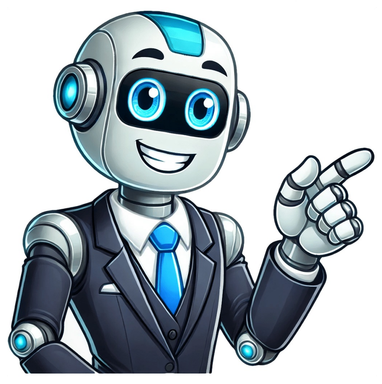

When a Journal Entry is made to record a transaction, that Journal Entry is then entered (posted) in the accounts being impacted. For example, when rent is paid, in the journal entry Rent Expense is increased and Cash is decreased. The individual accounts each (like Rent Expense and Cash) have a Ledger where transactions are entered. Individual transactions are entered and a running balance is tracked. A Ledger is a collection of accounts used to post journal transactions to individual accounts. Here is an example of a ledger: Image showing an example of a ledger. For a clearer understanding of the difference between a Journal and a Ledger, watch this video: Video explaining the difference between a journal and a ledger. To demonstrate how to post to accounts, we'll use the sample transactions detailed in this article: How Do You Do Journal Entries in Accounting: Step-by-step Here is the complete set of journal entries detailed in the article above: Examples of journal entries The Journal Entries are entered line by line into the Ledger and the balances are updated after each transaction. In the Ledger, this transaction is posted as a debit to Cash and a credit to Joe Smith, Capital. It looks like this: Posting a journal entry to the ledger. The Item column is left blank when posting regular transactions. The Item column is only used for notating the following types of transactions being posted: Beginning BalanceAdjusting EntryClosing Entry The Balance column in the General Ledger is used to keep a running balance in each account. This allows you to always know how much Cash is in the account and what your Revenue is for the month so far. Here is an example of the Cash account with all transactions posted: Example of balance in general ledger Cash account. Notice that debits increase the balance and credits decrease the balance. Here is the completed ledger for all transactions: Image of a complete ledger showing posting of all transactions. Posting Reference or Post Ref is a column in an accounting General Journal and General Ledger. It serves as a check and balance to ensure each transaction has been posted to the appropriate account. It is used in the process of posting transactions from the general journal to the general ledger. In the General Journal, when an account has been posted to an individual account, the number assigned to that account is listed in the Post Ref column to indicate that entry has been posted. In the General Ledger, for the corresponding transaction, the page number of the General Journal is entered to signify the page where the transaction can be found. Infographic showing how Post Reference column is used in accounting. A Trial Balance lists each account and its balance. The purpose of a Trial Balance is to double check our work to make sure our debits equal our credits. We do a trial balance when all the transactions are posted to the ledger and the balances updated. We take the balance from each account, grouping account types together (assets with assets, liabilities with liabilities, etc.), and we enter the balances into the Trial Balance. Here's the completed Trial Balance: Completed Trial Balance If you're not used to speaking the language of accounting, understanding debits and credits can seem confusing at first. In this article, we will walk through step-by-step all the buildingRead more! The first four chapters of Financial Accounting or Principles of Accounting I contain the foundation for all accounting chapters and classes to come. It's critical for accounting students to getRead more! An Asset is a resource owned by a business. A resource may be a physical item such as cash, inventory, or a vehicle. Or a resource may be an intangibleRead more! In this article we break down the differences between Depreciation, Amortization, and Depletion, discuss how each one is used, and what the journal entries are to record each. The mainRead more! What is a Closing Entry? A closing entry is a journal entry made at the end of an accounting period to reset the balances of temporary accounts to zero andRead more! A Liability is a financial obligation by a person or business to pay for goods or services at a later date than the date of purchase. An example of aRead more! link to So You Want to Start a Nonprofit...Consider This link to Tax Liability Accrual Explained When it comes to tracking the finances of a business, a double-entry accounting system that uses both a general ledger and a general journal is usually the best method for tracking a company's overall financial data—and keeping operations running smoothly and profitably. To understand how this system of accounting recording works, it's important to understand the different functions associated with these two key components: general ledgers and general journals. The general journal consists of raw accounting entries that record business transactions, in sequential order, by date.The general ledger is more formalized and tracks five key accounting items: assets, liabilities, owner's capital, revenues, and expenses.Advances in software technology have streamlined the accounting process and made it easy and efficient to combine both of these bookkeeping tasks. The general journal is a book of original entries, in which accountants and bookkeepers record raw business transactions, in the date order according to which events occur. A general journal is the first place where data is recorded, and every page in the item features dividing columns for dates and serial numbers, as well as debit or credit records. Some organizations keep specialized journals, such as purchase journals or sales journals, that only record specific types of transactions. Once a transaction is recorded in a general journal, the amounts are then posted to the appropriate accounts: accounts receivable, equipment, cash transactions, etc. Despite advances in software technology, there will always be a need to record non-routine transactions in general journals, such as sales of assets, bad debt, partial payments, and depreciation. A general ledger is a book or file that bookkeepers use to record all relevant accounts. The general ledger tracks five prominent accounting items: assets, liabilities, owner's capital, revenues, and expenses. Transactions that first appear in the journals are subsequently posted in general ledger accounts. Then, account balances are calculated and transferred from the general ledger to a trial balance before appearing on a company's official financial statements. Each accounting item is displayed as a two-columned, T-shaped table. The bookkeeper typically places the account title at the top of the "T" and records debit entries on the left side and credit entries on the right. The general ledger sometimes displays additional columns for particulars, such as transaction description, date, and serial number. Today, most organizations use accounting software to record transactions in general ledgers and journals, which has dramatically streamlined these basic record-keeping activities. In fact, most accounting software now maintains a central repository where companies can log both ledger and journal entries simultaneously. These advances in technology make it easier and less tedious to record transactions, and you don't need to maintain each book of accounts separately. The person entering data in any module of your company's accounting or bookkeeping software may not even be aware of these repositories. In many of these software applications, the data entry person need only click a drop-down menu to enter a transaction in a ledger or journal. No, a general ledger and a general journal are not the same. While they are both involved in recording transactions, the general journal records raw data of business transactions, sequentially. It is the first point of entry. The general ledger organizes this data into assets, liabilities, and revenue. It acts as a central repository that is later used for financial reporting and analysis. Yes, accounting software can manage both general ledgers and general journals simultaneously. When a transaction is entered into the software, it can update both the journal and the ledger. This helps businesses maintain accuracy by reducing manual effort and minimizing errors. A general ledger records both debits and credits. It is an accounting method that records how businesses spend and use money or resources. Debits are recorded on the left column and represent incoming money, while credits are recorded in the right column and represent outgoing money. A double-entry accounting system that uses both general journals and general ledgers ensures accurate financial tracking for businesses. The general journal records raw, date-sequenced transactions, while the general ledger organizes these transactions into key categories, including assets, liabilities, and revenues. Modern accounting software has significantly simplified the process, often combining these bookkeeping tasks into one seamless workflow. However, general journals remain necessary for recording non-routing transactions. Overall, the integration of technology has streamlined the financial record-keeping process, reducing manual labor and improving efficiency. The journal book must record every business transaction, which means entries need to be made. In accounting lingo, this is called a journal entry. We will provide you with 20 frequently asked journal entry examples on Google along with their logic.When following double-entry bookkeeping there needs to be at least 1 debit & 1 credit. The below image is helpful to understand the format of a journal entry. Knowing which account to debit and which to credit is crucial.Examples of Journal Entries with a PDFDownload our Free PDF at the End1. Journal Entry for Business Started (in cash)When a business commences and capital is introduced in form of cash.Cash A/cDebit To Capital A/CCreditCash is an asset for the business hence debit the increase in assets.Capital is an internal liability for the business hence credit the increase in liabilities.Example – Max started a business with 10,000 in cash.Cash A/c10,000 To Capital A/C10,000(Capital introduced by Max in cash for 10,000)Related Topic – All Journal Entries on one Page2. Journal Entry for Sales (Credit)The sale of goods by a business on credit.Debtors A/CDebit To Sales A/CCreditDebtors are assets for the business, therefore debit the increase in assets.Sales are income earned by the business, therefore credit the increase in income.Example – Sold goods worth 4,000 to ABC & Co. on creditABC & Co. A/C4,000 To Sales A/C4,000(4,000 worth of goods sold to ABC & Co. on credit)Related Topic – Try our Free Journal Entry Quiz for Practice3. Journal Entry for Purchases (Credit)When a business purchases goods from a supplier on credit.Purchases A/CDebit To Creditors A/CCreditPurchase is a direct expense for the business therefore debit the increase in expense.Creditors are a liability for the business thus, credit the increase in liability.Example – Purchased goods worth 3,000 from HM Ltd. on creditPurchases A/C3,000 To HM Ltd. A/C3,000(Goods worth 3,000 purchased from HM Ltd. on credit)Related Topic – Journal Entry for Cash Deposited in Bank4. Journal Entry for Drawings (Cash)Drawings are personal withdrawals made by the owner and act as a reduction in the owner's capital.Drawings A/CDebit To Cash A/CCreditDrawings are a reduction in capital for the business therefore debit the decrease in capital.Cash withdrawal from the business is a reduction in current assets as a result credit the decrease in assets.Example – Max Withdrew 1,000 in cash for personal use from his business.Drawings A/C1,000 To Cash A/C1,000(1,000 withdrawn for personal use by Max)5. Journal Entry for Drawings (Goods)In case an owner makes a personal withdrawal in form of goods.Drawings A/cDebit To Stock A/cCreditDrawings are a reduction in capital for the business therefore debit the decrease in capital.Stock is an asset for the business hence credit the decrease in assets. Alternatively, the purchase account can be credited instead of the stock account.Example – Max withdrew goods worth 2,000 for personal use.Drawings A/c2,000 To Stock A/c2,000(Goods worth 2,000 withdrawn by max)6. Journal Entry for Asset PurchaseWhen a business purchases an asset for cash.Asset A/cDebit To Cash A/CCreditA new purchase increases overall assets for the firm, therefore, debit the increase in assets.When a business makes a payment in cash it reduces current assets therefore, credit the decrease in assets.Example – Purchased Plant & Machinery worth 4,000 in cash.Plant & Machinery A/c4,000 To Cash A/C4,000(Plant & Machinery bought in cash)7. Journal Entry for DepreciationThe term 'depreciation' describes the reduction in the value of a tangible asset as a result of normal use, wear and tear, new technology, and/or unfavourable market conditions.i) With Accumulated DepreciationDepreciation A/CDebit To Accumulated Depreciation A/CCreditExample – Provide 10% depreciation on Plant & Machinery worth 4,000.Depreciation on Plant & Machinery A/C400 To Accumulated Depreciation A/C400(10% depreciation provided on plant & Machinery)ii) Without Accumulated DepreciationDepreciation A/CDebit To Asset A/CCreditDepreciation is an expense to the business therefore debit the increase in expense.Depreciation results in the reduction of the value of tangible fixed assets therefore credit the decrease in assets.Example – Provide 10% depreciation on Plant & Machinery worth 4,000.Depreciation on Plant & Machinery A/C400 To Plant & Machinery A/C400(10% depreciation provided on plant & Machinery)Related Topic – Which Contra Account is used in Recording Depreciation?8. Journal Entry for Bad DebtsWhen a customer fails to repay the amount owed it is known as a bad debt. It is an expense/loss for the business.Bad Debts A/CDebit To Debtors A/CCreditBad Debt is an expense for the business thus debit the increases in expenses.As the customer has defaulted and money is no longer receivable this is seen as a reduction in debtors, therefore, credit the decrease in assets.Example – ABC & Co. became insolvent and the business is unable to recover 500.Bad Debts A/C500 To ABC & Co. A/C500(Bad debts recorded for 4,000)Related Topic – Are Bad Debts Liabilities?9. Journal Entry for Free Samples/CharityFree samples or donations made to charity are treated as an advertising expense by the business.Advertisement A/CDebit To Purchases A/CCreditAdvertisement is an expense for the business hence debit the increase in expenses.Free samples/Donations are reduced directly from the purchases. Free samples/Donations are adjusted directly from the purchases to show a reduction in inventory, therefore, credit the decrease in assets.Example – Goods worth 500 distributed as free samples.Advertisement A/C500 To Purchases A/C500(Goods worth 500 distributed as free samples)Related Topic – Journal Entry for Free Samples and Charity (in Detail)10. Journal Entry for Discount AllowedThe practice of allowing discounts to customers on goods purchased.Cash A/CDebitDiscount Allowed A/CDebit To Debtor's A/CCreditCash is received by the business, therefore, debit the increase in assets.Discount allowed is an expense for the business hence debit the increase in expenses.Debtors are an asset to the business and therefore credit the decrease in assets.Example – Received 1,900 from XYZ in full settlement of their dues of 2,000.Cash A/C1,900Discount Allowed A/C100 To XYZ & Co. A/C2,000(1,900 received from XYZ in cash with 100 as a discount)Related Topic – Journal Entry for Discount Allowed (in detail)11. Journal Entry for Discount ReceivedIt may be possible to receive discounts from suppliers in certain situations for e.g. if a firm purchases in bulk or in case of early payment.Creditor's A/CDebit To Cash A/CCredit To Discount Received A/CCreditCreditors are a liability for the business therefore debit the decrease in liability.Cash paid results in a reduction of assets hence credit the decrease in assets.Discount received is an income/gain for the business as a result credit the increase in income/gain.Example – Paid 2,900 to HM Ltd. to settle their dues of 3,000.HM Ltd. A/C3,000 To Cash A/C2,900 To Discount Received A/C100(2,900 paid in cash to HM Ltd. and received 100 as a discount)12. Journal Entry for Outstanding ExpensesThe term "outstanding expenses" refers to expenses that are unpaid after their due date.Step 1 – At the time of recording expenses in the books.Expenses A/CDebit To Outstanding Expenses A/CCreditWhen an expense is recorded as outstanding it increases the overall expenses for the firm as it belongs to the current year, therefore, debit the increase in expenses.Outstanding expenses are treated as a liability hence credit the increase in liabilities.Step 2 – At the time of discharging liability.Outstanding Expenses A/CDebit To Cash A/CCreditOutstanding expense is a liability that is discharged, therefore, debit the decrease in liabilities.Cash is paid therefore, credit the decrease in assets.Example Step 1 – Electricity Expense of 1,000 is unpaid on the balance sheet date.Electricity Expenses A/C1,000 To Outstanding Electricity Expenses A/C1,000(Outstanding electricity expense of 1,000 recorded)Example Step 2 – Paid outstanding electricity expense of 1,000.Outstanding Electricity Expenses A/C1,000 To Cash A/C1,000(Outstanding electricity bill of 1,000 paid in cash)Related Topic – What are Accruals?13. Journal Entry for Prepaid ExpensesThe term "prepaid expenses" refers to expenses that are paid before the actual due date.Step 1 – At the time of paying an expense before the due date in cash.Prepaid Expense A/CDebit To Cash A/CCreditPrepaid Expense is treated as an asset for the business therefore, debit the increase in assets.The payment is made in cash therefore credit the decrease in assets.Step 2 – Adjustment entry when the prepaid expense expires.Expense A/CDebit To Prepaid Expense A/CCreditAt this point, the expense is recorded in the current period and it is no more "prepaid" therefore debit the increase in expenses.A prepaid expense is removed which was being treated as an asset therefore credit the decrease in assets.Example Step 1 – Paid 2,000 as advance rent in Dec for next month.Prepaid Rent A/C2,000 To Cash A/C2,000(2,000 rent paid in advance for Jan)Example Step 2 – Rent for 2,000 paid in the previous month to be adjusted this month. Entry on Jan 1,Rent Expense A/C2,000 To Prepaid Rent A/C2,000(Rent expense adjusted from prepaid rent)14. Journal Entry for Income Received in AdvanceIt is the income that is to be earned in the future accounting period but is already received in the current accounting period.Step 1 – At the time of receiving income in cash.Cash A/CDebit To Income Received in Advance A/CCreditCash is an asset for the business so debit the increase in assets.Income received in advance is a liability for the business therefore credit the increase in liability.Step 2 – Adjusting entry when the income is actually realized.Income Received in Advance A/CDebit To Income A/CCreditIncome received in advance is adjusted so the liability is removed therefore debit the decrease in liabilities.Income is being recognized therefore credit the increase in revenue.Example Part 1 – Received 2,000 rent advance in Dec for next month.Cash A/C2,000 To Rent Received in Advance A/C2,000(Advance rent received for Jan)Example Part 2 – 2,000 rent received in the previous month to be adjusted this month.Rent Received in Advance A/C2,000 To Rent Income A/C2,000(Advance rent adjusted and income recorded)15. Journal Entry for Accrued IncomeIncome earned during a period of accounting but not received until the end of that period is called accrued income.Step 1 – When Income is earned, but not received.Accrued Income A/CDebit To Income A/CCreditAccrued income is receivable for the business therefore debit the increase in assets.Income is business earning therefore credit the increase in income. This is because as per the accrual concept, income should be recognised when it is earned and not when it is received.Step 2 – When Accrued income is received in cash.Cash A/CDebit To Accrued Income A/CCreditCash is received therefore debit the increase in assets.Accrued Income is an asset that is to be reversed therefore credit the decrease in assets.Example Part 1 – Interest income of 2,500 related to the current year is due on the balance sheet date.Accrued Interest A/C2,500 To Interest Income A/C2,500(Accrued interest income recorded)Example Part 2 – Received interest of 2,500 that belongs to the previous year.Cash A/C2,500 To Accrued Interest A/C2,500(Interest received for the previous year)16. Journal Entry for Amortization ExpenseAmortization is the same as depreciation but is charged as an expense only on intangible assets.i) With Accumulated AmortizationAmortization Expense A/CDebit To Accumulated Amortization A/CCreditAmortization is an expense to the business thus debit the increase in expenses.Accumulated amortization is a contra account therefore credit the increase in accumulated amortization.Example – Patents worth 1,500 to be amortized.Amortization Expense A/C1,500 To Accumulated Amortization A/C1,500(Patents worth 1,500 amortized)Related Topic – List of Tangible and Intangible Assetsii) Without Accumulated AmortizationAmortization Expense A/CDebit To Intangible Asset A/CCreditAmortization is an expense to the business thus debit the increase in expenses.Value of the related intangible asset is reduced thus credit the decrease in assets.Example – Patents worth 1,500 to be amortized.Amortization Expense A/C1,500 To Patents A/C1,500(Being patents worth 1,500 amortized)Related Topic – Where is Amortization shown in financial statements?17. Journal Entry for Interest on CapitalIn return for the amount of capital employed by a partner in the business, he/she may seek a fixed rate of return.Step 1 – At the time of providing interest to the partner via his/her capital account.Interest on Capital A/CDebit To Partner's Capital A/CCreditInterest on Capital is an expense for the business therefore debit the increase in expenses.Partner's Capital is a capital account, therefore, credit the increase in capital.Step 2 – At the time of transferring interest to the P&L appropriation account.Profit & Loss Appropriation A/CDebit To Interest on Capital A/CCreditGenerally, interest on capital is an appropriation of profit, which means in case of loss, no interest is to be provided. Hence, debit the Profit and loss appropriation A/C and credit Interest on capital A/C at the time of transferring Interest on Capital.Example – Provide Interest @5% on partner's capital 10,000.Interest on Capital A/C500 To Partner's Capital A/C500(Interest on partner's capital provided)Profit & Loss Appropriation A/C500 To Interest on Capital A/C500(Interest on partner's capital transferred to P&L appropriation)Related Topic – Is capital an asset or liability?18. Journal Entry for Interest on DrawingsDrawings are goods or cash withdrawn by a proprietor for their personal use from the business. In this case, the proprietor may be charged interest at a fixed rate.Step 1 – At the time of charging interest on drawings from the proprietor.Drawings A/CDebit To Interest on Drawings A/CCreditDrawings are a reduction in capital for the business therefore debit the decrease in capital.Interest on drawings is an income for the business hence credit the increase in income.Step 2 – At the time of transferring interest to the P&L appropriation account.Interest on Drawings A/CDebit To Profit & Loss Appropriation A/CCreditRelated Topic – Some Difficult Adjustments in Final AccountsExample – Charge interest @ 10% on partner's drawings for 3,000.Drawings A/C300 To Interest on Drawings A/C300(Interest on partners' drawings)Interest on Drawings A/C300 To Profit & Loss Appropriation A/C300(Interest on drawings transferred to P&L appropriation)19. Journal Entry for Goods ReturnedJournal Entry for Sales ReturnSales returns are the goods returned by customers or debtors to the company.Sales Returns A/CDebit To Debtor's A/CCreditSales return is a decrease in income, therefore, debit the decrease in income. It is a contra-revenue account.Debtors are an asset for the business and therefore credit the decrease in assets.Example – Goods worth 200 sold on credit are returned by XYZ Ltd.Sales Returns A/C200 To XYZ Ltd. A/C200(Goods returned by XYZ Ltd.)Journal Entry for Purchase ReturnPurchase Returns are the goods returned by the company to the seller or creditors.Creditor's A/CDebit To Purchase Returns A/CCreditCreditors are a liability for the business therefore debit the decrease in liability.Purchase Returns decrease the expense for a business and therefore credit the decrease in expense. It is a contra-expense account.Example – Goods worth 100 purchased on credit from HM Ltd. returned by us.HM Ltd. A/C100 To Purchase Returns A/C100(Goods returned to HM Ltd.)20. Journal Entry for Manager's CommissionCompanies may offer managers a fixed percentage of their net profit as a commission in addition to salaries.Manager's Commission A/CDebit To Cash/Bank A/CCreditManager's commission is an expense for the business therefore debit the increase in expense.Money paid in cash or via bank is a decrease in assets therefore credit the decrease in assets.Example – Paid manager commission @2% of the Net profit of the Current period after charging such commission. Net profit for the current period is 10,000Manager's Commission A/C196 To Cash/Bank A/C196(Manager commission @2% paid)Download our Journal Entry Examples PDF>Read Adjustments in Final Accounts All BlogsAccounting ResourcesLedger Account ExamplesGeneral LedgerT Accounts and PostingsT AccountsT-Account ExamplesPosting in AccountingGeneral LedgerBOOT CAMP - Financial Modeling (6 Hrs)Unlock Unlimited Learning!Table Of ContentsThe following Ledger accounts example provides an outline of the most common Ledgers. The ledger accounts are the separate records of the business transactions carried by an entity prepared using the reference of the daily journal entries and are related to a specific account, which can be an asset or a liability, capital or equity, expense, or revenue item.A ledger account is a record that contains all the transactions for a specific budget in a company's financial records.Ledger accounts track the balance and activity of individual accounts, such as cash, accounts payable, and accounts receivable.Ledger accounts are an essential part of the accounting system and are used to prepare financial statements and monitor a company's financial performance.Under a ledger account, fixed assets are held for a long term and are not expected to convert into cash in a short time.A ledger account contains information about a particular account's opening and closing balances and the periodical debit and credit adjustments based on daily journal entries. A ledger account's most important information is the periodical (usually annual) closing balances about a specific item or charge. The ledger accounts are essential in the formation of trial balances and the company's financial statements, often incorporating payment software for seamless transaction tracking.To better understand the working of ledger accounts, let's discuss some ledger accounts examples:-Mr. John Wick wants to start a new clothing business. He has a total sum of $100,000 in his savings that can be invested. In addition, he owns a small shop at a primary location that can be used to start a retail clothing outlet. He purchased furniture, including shelves, a counter desk, and other equipment for the store for $15,000. He also hires a staff of two for customer support and other office work for $5,000 each.Mr. Wick decided to start with men's clothing and purchased a complete range of clothes from the wholesale market, which cost him around $75,000. The initial purchase got sold in not more than one month for $95000.Mr. Wick wants to journalize these transactions and create ledger accounts for April 2019.David Baker wants to start a forging factory, where he can manufacture high-quality chef and military knives. On January 1, 2018, he invested a sum of $1,000,000 as capital and started The Damascus Forging Works. He took a bank loan of $750,000 at 5% PA and invested the remaining amount of $250,000 from his savings. He opened a current account and deposited $800,000.Afterward, he made the following transactions. On January 2, he rented a factory in the nearby industrial area for $20,000 per month and deposited $100,000 in advance by cheque. On January 4, Mr. Baker purchased the necessary machinery for $500,000, paid by cheque. After setting up the factory, he started production on 5thJan, and the following transactions took place during the 1st year:-Since Mr. Baker maintained all the accounting records himself, he wants our help to create ledger accounts for the firm.The ledger accounts:-What is the purpose of a ledger account?The purpose of a ledger account is to record and track all the transactions related to a specific budget in a company's financial records. Therefore, this allows businesses to monitor the balance and activity of individual accounts and prepare financial statements based on accurate and up-to-date information.Ledger accounts can broadly be classified into?Ledger accounts can be classified into real accounts, also known as permanent accounts, and nominal accounts, also known as temporary accounts.When are ledger accounts balanced?These accounts are balanced at the end of each accounting period, typically at the end of the month, quarter, or year. Balancing a ledger account involves verifying the total debits equal the total credits for the account. Balancing this account is vital because it ensures that it is accurate and complete. Every business that does bookkeeping needs to record its transactions somewhere. When you have multiple customers and vendors, it can be a hectic task to consolidate all your sales and purchases in just a notebook. You need organization, so when tax or audit season rolls around, you are not left scrambling at the last minute. Transaction records are important because they are proof of how your money is being exchanged, how regularly, and with whom. But where do you record the movement of money to and from your business? Also, how do you record uncommon transactions like depreciation, bad debt, and the sale of assets? This is where journals and ledgers come into play. Read on to find out more about them and how you can use them for your business.The journal. What is it?The journal is also known as the book of original entry. It is where a business transaction is recorded when it first happens. A journal can be physical or electronic, and sales, purchases, or any movement of money to or from your business is recorded in chronological order. A journal contains the following information:The date of the transactionThe account or accounts that are debited, and the amount involvedThe account or accounts that are credited, and the amount involvedA short description and reference of the transactionThe golden rules of accountingEvery journal entry that is made must follow the golden rules of accounting. These rules apply to three specific accounts. Let's define these accounts and take a look at their associated rules:Real account – an account that pertains to assets and liabilities.Golden Rule: Debit what comes into the business, and credit what goes out of the business.Personal account – includes all accounts related to individuals, firms, and associations.Golden Rule: Debit the receiver, and credit the giver.Nominal account – related to all income, expenses, losses and profits.Golden Rule: Debit the expense or loss, and credit the income or profit.Using the accounts and rules above, let's see how entries are made in the journal.On March 5th, you buy furniture for your office worth $5,000 in cash. The furniture is considered an asset, so this is affecting the real account. The golden rule states that assets are debited, so you add $5,000 to the debit column of the journal. An equal credit must be recorded to the cash account, so you add $5,000 to the credit side of the journal. Finally, you note down the description of the transaction as a purchase of furniture worth $5,000.On March 30th, the nominal account was debited for salary expenses, and the business' bank account was credited to reflect that. You can see that the transactions entered in the journal follow the golden rules of accounting.The ledger. What is it?The ledger is also known as the book of second entry or the principal book of accounts. The ledger contains the chart of accounts, which is the list of all names and account numbers in the ledger. The ledger is given special importance by auditors and must be "balanced," where the total debits always equals the total credits. If the debits outweigh the credits, it is called a debit balance. If the credits are more than the debits, there is a credit balance.Ledger entries – format & exampleTransactions in the journal are grouped by accounts in the order of assets, liabilities, equity, income, and expenses. They are then transferred to the ledger. Ledger entries appear in the order of accounts compared to the journal's chronological order.What comes after the journal and ledger?After you have categorized transactions into corresponding accounts and recorded them in your ledger, you must check if your books are balanced. The trial balance helps you with that. It shows the ending balances of all your accounts as they appear on the balance sheet. The trial balance contains a description, account number, account name, debit balance, and credit balance. Once information from the ledger is consolidated into the trial balance, it is easy for your accountant to spot imbalances between debits and credits. It is concise, orderly, and helps remove discrepancy, proving to be a handy tool in keeping your books balanced.Your books are balanced. Now what?Once your books are balanced, it is time to generate financial reports to better understand how your business is performing. Every business must be aware of its growth and where it stands at any given point in time. Financial reports provide this insight. The cash flow statement depicts your cash flow trends by showing you how money moves in and out of your business. The balance sheet tells you how much your business owns, how much it owes, and its shareholder's equity. The income statement, or profit and loss statement, focuses on the revenue gained and expenses incurred by a business over time. These are the three reports that businesses must pay most attention to.The importance of journals and ledgersWhy is there so much emphasis on using journals and ledgers? The answer is simple. You can accomplish your bookkeeping goals easier when you have complete records of all your transactions. Financial statements like the cash flow statement, balance sheet, and income statement provide vital information about your business trends, and they can only be generated by using information from journals and ledgers. Recording and tracking uncommon transactions like depreciation, bad debt, and the sale of assets are made easier with journals. Journals and ledgers also help you to capture both the debit and the credit sides of transactions. This is often overlooked when companies do not use books.The bottom lineRecording business transactions forms the core of your bookkeeping. It does not make sense to record them only when taxes and audits are around the corner. Ensuring accurate accounts of your business requires diligent upkeep of journals and ledgers. They are important and useful tools that keep you on track and allow you to set performance goals. Most importantly, they help you as a business owner to understand your company's financial operations so you can assess growth and maintain a healthy and thriving organization. Standard Ledger Example Sardar Hammad is sole owner of business. He has been started business since 1990. Following are transaction for the month of August 2016, prepare Journal Entry, General Ledgers and Trial Balance. August 2016 Aug 3. Reinvestment in the shape of Cash $80,000 and Furniture $20,000. Aug 5. Cash Sales $10,000 and on account Sales $12,000. Aug 6. Bought goods from Ahmed Co. $60,000 paid $15,000 cash and remaining Note payable pay within 30 days. Aug 9. Purchase Office Equipment from Waseem Shah worth Rupees $99,000, a cash down payment of $19,000 and balance will be paid by four installments, first due on 30 August. Aug 21. Goods return by credit customer of worth $12,000. Aug 30. Paid first installment of $20,000. Solution: Journal Entry   Solution: Standard Ledger Accounts Double entry system of bookkeeping says that every transaction affects two accounts. There is a proper procedure for recording each financial transaction in this system, called as accounting process.The process starts from journal followed by ledger, trial balance, and final accounts. Journal and Ledger are the two pillars which create the base for preparing final accounts. The Journal is a book where all the transactions are recorded immediately when they take place which is then classified and transferred into concerned account known as Ledger. Journal is also known as book of primary entry, which records transactions in chronological order. On the other hand, Legder, or otherwise known as principal book implies a set of accounts in which similar transactions, relating to person, asset, revenue, liability or expense are tracked. In this article, we have compiled all the important differences between Journal and Ledger in accounting, in tabular form. Content: Journal Vs Ledger Comparison Chart Definition Key Differences Conclusion Comparison Chart Basis for ComparisonJournalLedger MeaningThe book in which all the transactions are recorded, as and when they arise is known as Journal.The book which enables to transfer all the transactions into separate accounts is known as Ledger. What is it?It is a subsidiary book.It is a principal book. Also known asBook of original entry.Book of second entry. RecordChronological recordAnalytical record ProcessThe process of recording transactions into Journal is known as Journalizing.The process of transferring entries from the journal to ledger is known as Posting. How transactions are recorded? SequentiallyAccount-wise Debit and CreditColumnsSides NarrationMustNot necessary. BalancingNeed not to be balanced.Must be balanced. Definition of Journal The Journal is a subsidiary day book, where monetary transactions are recorded for the first time, whenever they arise. In this, the transactions are regularly recorded in an orderly manner, so that they can be referred in future. It highlights the two accounts which are affected by the occurrence of the transaction, one of which is debited and the other is credited with an equal amount. A short note is given in support of each entry, which gives a brief description of the transaction, known as Narration. The complete process of recording the entries in the journal is known as Journalizing. It has five columns which are Date, Particulars, Ledger Folio, Debit, and Credit. A journal can be: Single Entry: Entry having one debit and a corresponding credit. Compound Entry: Entry having one debit and more than one credit or entry having more than one debit for a single debit or two or more debit and two or more credits. In the case of compound entry, it should be kept in mind that the total of debit and credit will tally. Definition of Ledger Ledger is a principal book which comprises a set of accounts, where the transactions are transferred from the Journal. Once the transactions are entered in the journal, then they are classified and posted into separate accounts. The set of real, personal and nominal accounts where account wise description is recorded, it is known as Ledger. While posting entries in the ledger, individual accounts should be opened for each account. The format of a ledger account is 'T' shaped having two sides debit and credit. When the transaction is recorded on the debit side the word 'To' is added, however, if the transaction is to be recorded on the credit side, then the word 'By' is used in the particular column along with the account name. At the end of the financial year, the ledger account is balanced. For this purpose, first of all, the totals of the two sides is determined, after that, you need to calculate the difference between the two sides. If the amount on the debit side is more than the credit side, then there is a debit balance, but if the credit side is higher than the debit side, then there is a credit balance. Suppose if an account has a debit balance, then you have to write "By Balance c/d" on the credit side with the difference amount. In this way both the sides will tally. Now, at the beginning of the new period, you have to transfer the opening balance to the opposite side (i.e. On the debit side as per our example) as "To Balance b/d". Here c/d refers to carried down, and b/d means brought down. The difference between journal and ledger can be drawn clearly on the following grounds: The Journal is a book where all the financial transactions are recorded for the first time. When the transactions are entered in the journal, then they are posted into individual accounts known as Ledger. The Journal is a subsidiary book, whereas Ledger is a principal book. The Journal is known as the book of original entry, but Ledger is a book of second entry. In journal, transactions are recorded in chronological order, whereas in ledger, transactions are recorded in analytical order. In the journal, the transactions are recorded sequentially. Conversely, in the ledger, the transactions are recorded on the basis of accounts. Debit and Credit are columns in the journal, but in the ledger, they are two opposite sides. In the journal, narration must be written to support the entry. On the other hand, in the ledger, there is no requirement of narration. Ledger accounts must be balanced, but journal need not be balanced. Conclusion In the beginning, we talked about the procedure of recording a transaction. It involves a series of actions like they are first recorded in the journal, from there they are classified and grouped into separate accounts and posted into the ledger, which is then transferred to trial balance and at the end the final accounts are prepared.These steps provide a base to prepare the financial accounts of a company. If any of the above steps is missing, then it would be hard to prepare the final accounts. 20 transactions with their Journal Entries, Ledger and Trial balance 20 transactions with their Journal Entries Journal A journal is one of the books of original entries in which transactions are originally recorded in a chronological (day-to-day) order according to the principles of the Double Entry System. Transactions, when recorded in a Journal, are known as entries. It is the book in which transactions are recorded for the first time. Journal is also known as 'Book of Original Record' or 'Book of Primary Entry'. This process of recording transactions in the journal is' known as 'Journalising'. Journal is also known as 'Book of Original Record' or 'Book of Primary Entry'. Business transactions of financial nature are classified into various categories of accounts such as assets, liabilities, capital, revenue and expenses. These are debited or credited according to the rules of debit and credit, applicable to the specific accounts. Every business transaction affects two accounts. Applying the principle of double entry, one account is debited and the other account is credited. Every transaction can be recorded in the journal. Also Read: 30 transactions with their Journal Entries, Ledger, Trial balance and Final Accounts- Project   Explanation: Date : In the first column, the date of the transaction is entered. The year and the month is written only once, till they change. The sequence of the dates and months should be strictly maintained. Particulars : Each transaction affects two accounts, out of which one account is debited and the other account is credited. The name of the account to be debited is written first, very near to the line of particulars column and the word Dr. is also written at the end of the particulars column. In the second line, the name of the account to be credited is written, starts with the word 'To', a few space away from the margin in the particulars column to the make it distinct from the debit account. Narration : After each entry, a brief explanation of the transaction together with necessary details is given in the particulars column with in brackets called narration. The words 'For' or 'Being' are used before starting to write down narration. Now, it is not necessary to use the word 'For' or 'Being'. Ledger Folio (L.F): All entries from the journal are later posted into the ledger accounts. The page number or folio number of the Ledger, where the posting has been made from the Journal is recorded in the L.F column of the Journal. Till such time, this column remains blank. Debit Amount : In this column, the amount of the account being debited is written. Credit Amount : In this column, the amount of the account being credited is written. LEDGER Ledger is also called the Principal Book of Accounts. After recording the business transactions in the Journal or special purpose Subsidiary Books, the next step is to transfer the entries to the respective accounts in the Ledger. Ledger is a book where all the transactions related to a particular account are collected at one place. A Ledger is a book which contains all the accounts whether personal, real or nominal, which are first entered in journal or special purpose subsidiary books. According to L.C. Cropper," The book which contains a classified and permanent record of all the transactions of a business is called the ledger." Posting 'The process of transferring the entries recorded in the journal or subsidiary books to the respective accounts opened in the ledger is called Posting' RULES OF POSTING *If an account is debited in the journal entry, the posting in the ledger should be made on the debit side of that particular account. In the particular column the name of the other account (which has been credited in the Journal entry) should be written for reference. * For the A/c credited in the Journal entry, the posting in the ledger should be made on the credit side of that particular account. In the particular column the name of the other account (which has been debited in the Journal entry) should be written for reference. Points to be Remember 'To' is written before the A/c which appear on the debit side of ledger. "By" is written before the A/c's appearing on the credit side of ledger. Use of these words 'To' and 'By' is optional. Balancing Procedure for Balancing While balancing an account, the following steps are involved: Step 1 –Total the amount column of the debit side and the credit side separately and then ascertain the difference of both the columns. Step 2 – If the debit side total exceeds the credit side total, put such difference on the amount column of the credit side, write the date on which balancing is being done in the date column and the words "By Balance c/d" (c/d means carried down) in the particulars column. OR If the credit side total exceeds the debit side total, put such difference on the amount column of the debit side, write the date on which balancing is being done in the date column and the words "To Balance c/d" in the particulars column. Step 3 – Total again both the amount columns, put the total on both the sides and draw a line above and a line below the totals. Step 4 – Enter the date of the beginning of the next period in the date column and bring down the balance on the debit side along with the words "To Balance b/d" (b/d means brought down) in the particulars column and the words "By Balance b/d" on the credit side along with the words "By Balance b/d" on the credit side in the particulars column. 20 transactions with their Journal Entries: Trial Balance Trial balance is a statement prepared to check the arithmetical accuracy of the books of ledger accounts. Trial Balance is the list of debit and credit balances taken out from ledger to test the arithmetical accuracy of the books. "It also includes the balances of Cash and bank taken from the Cash Book". First step recording of transactions in journal. The next step post them into ledger and the next step in the accounting process is to prepare a statement to check the arithmetical accuracy of the transactions recorded so for. This statement is called 'Trial Balance'. Trial balance is a statement which shows debit balances and credit balances of all accounts in the ledger. Since, every debit should have a corresponding credit as per the rules of double entry system, the total of the debit balances and credit balances should tally (agree). In case, there is a difference, one has to check the correctness of the balances brought forward from the respective accounts. Trial balance can be prepared in any date provided accounts are balanced. 20 transactions with their Journal Entries, Ledger, and Trial balance Also Read: Diagrams for Circular flow of Income Meaning and advantages of Double Entry System Bhardwaj Accounting Academy Definition "Trial balance is a statement, prepared with the debit and credit balances of ledger accounts to test the arithmetical accuracy of the books" – J.R. Batliboi. Features of Trial Balance Trial balance is a list of the various ledger account balances whether debit or credit. It is prepared in the form of a statement. A firm prepares a trial balance in order to check the arithmetical accuracy of the ledger accounts. The arithmetical accuracy established by a trial balance is not proof that there are no mistakes in the books of accounts. It is prepared at the end of the accounting year. However, a firm may prepare it weekly, monthly, quarterly or half-yearly also. Trial balance does not form a part of the final accounts. It provides a summary of the ledger accounts. Thus, it serves as a link between the books of accounts and Trading & Profit and Loss Account and Balance Sheet. Objectives To check the arithmetical accuracy of the ledger accounts. Locate the errors. To facilitate the preparation of final accounts. Trial balance Provides the summary of ledger accounts. Balancing of different accounts Balancing is done periodically, i.e., weekly, monthly, quarterly, halfyearly or yearly, depending on the requirements of the business. Personal Accounts : These accounts are generally balanced regularly to know the amounts due to the persons (creditors) or due from the persons (debtors). Real Accounts : These accounts are generally balanced at the end of the year when final accounts are being prepared. However, cash account is frequently balanced to know the cash in hand. A debit balance in an asset account indicate the value of the asset owned by the business. Assets accounts always show debit balances. Nominal Accounts : These accounts are in fact, not to be balanced as they are to be closed by transfer to final accounts. A debit balance in a nominal account indicates that it is an expense or loss. A credit balance in a nominal account indicates that it is an income or gain. All the balances in personal and real accounts are shown in the Balance Sheet and the balances in nominal accounts are transfer to the Trading and Profit and Loss Account. Balance of Direct expenses Accounts are transfer to Debit side of Trading Account. Balance of Purchase Account transfer to Debit side of Trading Account. Balance of Direct Incomes(Sales) Accounts are transfer to Credit Side of Trading Account. Balance of Indirect expenses Accounts are transfer to Debit side of Profit and Loss Account. Balance of Indirect Incomes Accounts are transfer to Credit side of Profit and Loss Account. Financial Statements/Final Accounts in 20 transactions with their Journal Entries The statements that are prepared at the end of a particular accounting period to measure the overall result (Net Profit/Net Loss) of business activities and show the financial position of a business concern are generally called financial statements. Or The accounts which are prepared at the final stage (at the end of the financial year) of the accounting cycle to know the profit or loss and financial position of a business concern is known as Final Accounts. Final accounts gives an idea about the Profitability and Financial position of a business to its management, owners, and other interested parties. Financial statements/Final Accounts include these accounts : (i) Income statement (a. TradingAccount, b. Profit and Loss Account)—prepared to ascertain gross profit/loss and net profit/loss during an accounting period. * Trading Account is prepared to ascertain the results of the trading activities of the business enterprise. Trading activities means buying and selling of goods. The trading account shows the result(Gross Profit/Gross Loss) of buying and selling of goods. * Profit and Loss Account shows the net profit/loss during an accounting period. Profit and loss Account is an account, which is prepared to calculate the net profit or net loss of the business for the accounting period. Profit and Loss Account is a Nominal Account and as such, all the indirect expenses and gains are shown on its debit side and all the incomes and gains are shown on its credit side. (ii) Statement of Financial Position (Balance Sheet)—prepared to ascertain financial position (assets, liabilities and capital) of an enterprise at a particular point of time. Balance sheet is a financial statement that shows the financial position of a business and the nature and values of its assets and liabilities on a particular date. This forms the second part of the final accounts. It is a statement showing the financial position of a business. Balance sheet is prepared by taking up all personal accounts and real accounts (assets and properties) together with the net result obtained from profit and loss account. On the left hand side of the statement, the liabilities and capital are shown. On the right hand side, all the assets are shown. Balance sheet is not an account but it is a statement prepared from the ledger balances. So we should not prefix the accounts with the words 'To' and 'By'. Balance sheet is defined as 'a statement which sets out the assets and liabilities of a business firm and which serves to ascertain the financial position of the same on any particular date'.(particular point of time). Direct Expenses Those expenses which are incurred on purchasing of goods and for converting raw material into the finished goods are called direct expenses. Or Those expenses which are directly related to production/Manufacturing or purchase of the goods are called direct expenses. For Example- Manufacturing wages, Expenses on purchases (including all duty and tax paid on purchases, Freight on purchases of goods, Commission on purchases of goods). Carriage/Freight/Cartage inwards, Production expenses (such as power and fuel, water, coal,Gas etc.), factory expenses (e.g. lighting, rent and rates), Royalty based on Production etc. Note : All direct expenses are debited to Trading account. Direct Income in 20 transactions with their Journal Entries Direct income   is the income which is directly related to the particular business.eg, sales of the goods. other words- Direct income is one which is earned directly by way of business activities. Note : All direct income are credited to Trading Account. Indirect Expenses Those expenses which are not directly related to production/Manufacturing or purchase of the goods are called indirect expenses. It includes those expenses which are related to office and administration, selling and distribution of goods and financial expenses etc. For Example- Office & Admin. Expenses Salaries, Rent Rates Taxes, Printing and Stationery, Salaries & Wages, Postages and Telephones , Office Lighting, Insurance Premium, Legal Expenses, Audit Fees, Travelling Expenses , Selling & Distribution Exp. Carriage and Freight Outwards, Commission , Brokerage, Advertisement , Publicity   Bad Debts Packing Expenses   Salaries of Salesman Delivery Van Expenses ,Financial Exp. Interest paid on loans, Discounts Allowed Rebate Allowed Bank Charges Miscellaneous Exp. Repairs Depreciation on Fixed Assets Entertainment Expenses, Donations & Charity, Stable Expenses Unproductive Expenses Note :These expenses are shown in the debit side of the Profit and Loss A/c. Indirect Income. in 20 transactions with their Journal Entries Indirect income is one which is earned directly by way of non-business activities. eg- Profit on Sale of Fixed Assets, Profit on Sale of Investment, Discount Received, Rent Received, commission Received, Interest Received,Dividend Received etc. Note : All Indirect income are credited to Profit and loss Account Operating Expenses An operating expense is a day-to-day expense incurred in the normal course of business. These expenses are expenses which are incurred by the business in the normal course of its operations. Or Operating expenses are expenses a business incurs in order to keep it running, such Employee Benefit Expenses , Depreciation and Amortisation Expenses , Selling and Distribution Expenses, Office and Administrative Expense, Rent Tax and insurance etc. Non- Operating Expenses in 20 transactions with their Journal Entries Such expenses that are neither related to normal course of activities of a business nor related to the production process of a business are known as non-operating expenses. Non Operating Expenses = Interest on Debentures / Long Term Loans + Loss on sale of Non Current Assets Non-Operating Incomes in 20 transactions with their Journal Entries Non-operating income is the portion of an organization's income that is derived from activities not related to its core business operations. Non Operating Incomes = Interest Received on Investment + Profit on sale of Non Current Assets+ Dividend received 20 transactions with their Journal Entries, Ledger, and Trial balance PASS THE JOURNAL ENTRIES (WHICH SHOULD HAVE AT LEAST 20 TRANSACTIONS WITHOUT GST), POST THEM INTO THE LEDGER, PREPARE A TRIAL BALANCE BY BALANCE METHOD- On 1st November, 2020 Mr.Rachit started a Readymade garments business in lalitpur Mr. Rachit invested Rs 50,00,000. November 2 Cash deposited into the bank Rs. 30,00,000. November 2 Goods purchased for cash Rs 8,00,000 at 25% trade discount . November 3 Sewing Machinery Purchased for cash Rs. 5,50,000 and installation expenses paid Rs. 50,000. November 5 Computer Purchased paid by cheque Rs. 50,000. November 6 Goods sold for cash Rs. 7,00,000. November 10 Goods purchased from Dinesh & company Rs. 12,50,000 at 20% trade discount . November 12 Goods Sold to Mohit & Brother Rs.20,00,000 at 40% trade discount . November 15 amount paid to Dinesh & company by cheques Rs. 4,00,000. November 16 Furniture Purchased paid by cheque Rs. 1,50,000. November 18 Cheques received from Mohit and brother Rs 8,00,000 and deposited into Bank same day. November 19 Goods purchased from Dinesh & company Rs. 10,00,000 at 20% trade discount . November 20 Goods sold for Cash Rs. 5,00,000. November 21 Goods Sold to Mohit & Brother Rs.10,00,000 at 20% trade discount . November 24 Isurance premium paid Rs. 20,000 by cheque. November 25 Cash received from Mohit and brother Rs 2,00,000. November 26 Cash paid to Dinesh and company Rs. 1,50,000. November 27 Commission Received Rs. 20,000. November 29 Cash withdrawn for personal use Rs. 40,000. November 30 Salary Rs 25,000, Rent Rs. 16,000 paid by cheque. 20 transactions with their Journal Entries, Ledger, and Trial balance JOURNAL ENTRIES IN THE BOOKS OF RACHIT 20 transactions with their Journal Entries, Ledger, and Trial balance: Ledger Accounts LEDGER 20 transactions with their Journal Entries, Ledger, and Trial balance CLOSING ENTRIES Closing Entries 20 transactions with their Journal Entries, Ledger, and Trial balance Admission of a partner-Important Questions-1 Important questions of fundamentals of partnership-3 Profit and loss Appropriation Account Format of Profit and loss Appropriation Account Hidden Goodwill at the time of Admission of A New Partner Important questions of fundamentals of partnership Important questions of fundamentals of partnership-2 Goodwill questions for practice Class 12 ISC & CBSE Important questions of fundamentals of partnership-5 ACCOUNTING TREATMENT OF GOODWILL AT THE TIME OF ADMISSION OF A NEW PARTNER 20 transactions with their Journal Entries, Ledger, and Trial balance