

Advanced Double-entry Bookkeeping: Journals

In [bookkeeping basics: double-entry accounting](#) we looked at how every transaction has two entries which maintain the accounting equation in balance. In this guide we go a step further and look at **journals**.

Many bookkeepers won't need to create journals but for some they are important. You might also see that your account has 'posted' journals on your system and want to understand the effect that these have on your accounts.

What is a journal?

A journal is an accounting entry for a non-routine transaction (e.g. not a bill or invoice). Accounting software will provide an easy way to enter the majority of transactions but there will be some which require a more flexible approach or where a journal is simply quicker.

A journal is similar to any other accounting transaction in that it must comprise at least two elements which cancel out.

Regardless which system you use to create it, a journal will include:

- The date of the entry.
- A description to explain the entry.
- *At least* one 'debit' entry.
- *At least* one 'credit' entry.

Some accounting systems allow you to copy an existing journal, or creating one which repeat automatically.

Journals are normally presented like this:

Date: 30 June 20X1

Narrative: To correct misposting on invoice #223

Description	Debit	Credit
Sheep Sundries		900.00 ¹
Vet & Med	900.00 ²	
Total	900.00	900.00

Tip: most accounting systems will provide an easier way to correct a transaction, for instance re-opening and editing a bill or invoice. The advantage of going back into the original transaction and correcting it is that you are less likely to make mistakes.

Journals are a very simple and quick way to make entries in the accounting records, for which reason accountants and professional bookkeepers like them. The greatest difficulty lies in understanding what to put in the journal, particularly what entry should be the *debit* and which the *credit*—and we cover this overleaf.



All about debits & credits

The basic principle of double-entry bookkeeping is the **accounting equation** which must always balance: **Assets = Liabilities + Equity**

A **debit** is an accounting entry which increases an asset or an expense.

A **credit** is an accounting entry which increases an income, a liability, or equity.



These terms are the **opposite of what they mean on your bank statement!** The bank statement looks from the perspective of the bank. When you have money in your account the bank are required to give you the cash on demand, therefore your 'credit' bank balance is one of the bank's liabilities.

A good way to remember which is which is to use **PEARLS**:

Use the following steps to prepare the journal:

1. Identify which nominal ledgers are affected.
2. Decide whether the account balance on each nominal ledger is to be increased or reduced, and whether this then means debiting or crediting the account.
3. Make sure that the debit and credit entries balance.

DEBIT

CREDIT

Increase in:

Increase in:

Purchases

Revenues (Sales)

Expenses

Liabilities

Assets

Shareholders Equity

Example: Mike wants to use a journal to record the purchase of a machine on hire purchase (the machine costs £9,000 and hire purchase charges are £100).

Step 1: The nominal ledgers affected are the **Plant & Machinery asset** account, the **Credit Charges expense** account, and the **Hire Purchase liability** account.

Step 2: Plant & Machinery asset: **increased**, Credit Charge Expense: **increased**, Hire Purchase Liability: **increased**.

Step 3: Plant & Machinery asset: **DEBIT**, Credit Charge expense: **DEBIT**, Hire Purchase liability: **CREDIT**.

Example:

1/4/X2 Record purchase of new mower— invoice ref #332

	Debit	Credit
Plant & Machinery (asset)	9,000	
Credit Charges (expense)	100	
Hire Purchase (liability)		9,100
	9,100	9,100



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