Financial Accounting
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Lecture – 27
2.8 Key Trends in Journalizing

Hi. In this video, I am going to summarize the learnings from the tutorial that you have just gone through. I want to quickly show you the key trends, the patterns that we have already discussed and I want to summarize those for you.

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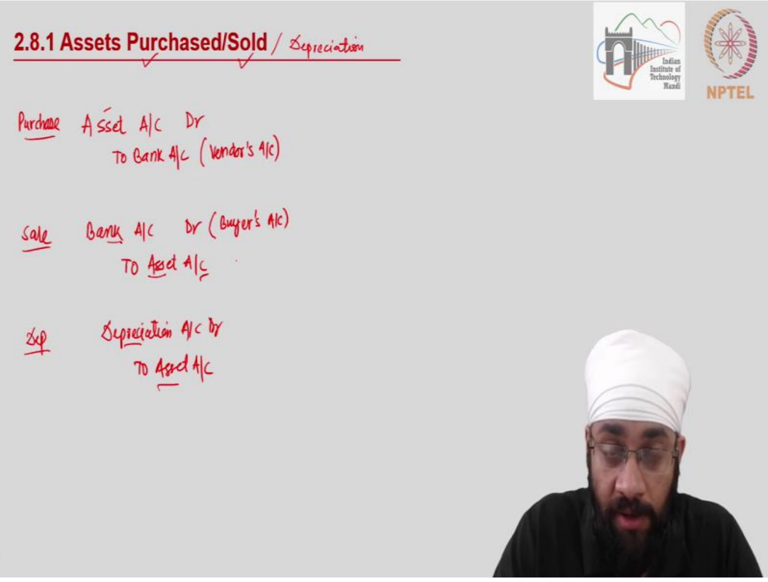

Now, again, we go back to the four key terms in accounting- assets, liabilities, incomes and expenses. As far as assets are concerned, you are either going to purchase the assets, or are going to sell the assets. One more thing that could happen is you would charge depreciation on the assets. So, whenever an asset is purchased, the asset is going to come in, so Asset A/c (Dr.) and you are going to pay for it, so To Bank A/c. If you do not pay for it then you could write the vendor's account instead of a bank account. Vendor's account because the vendor becomes a liability for you now. So, this is the purchase. When you sell any asset, in the sale of the asset, the transaction reverses. You now receive money in your bank account and instead in exchange of the money, you give away your asset. The entry is reversed; instead of debit, the asset is being credited, and if you do not get the money, you write the name of buyers. So, buyer's account, because he becomes your debtor now, you have to recover money from him. These are the two transactions; purchasing the assets, selling the asset. Purchasing them in cash or purchasing them on credit; selling them in cash or selling them on credit. The other transaction is about depreciation. Whenever depreciation is charged, you have a depreciation account debit and the asset goes out, asset account credit. Again, it is similar to the sales entry because assets go out; in sales money comes in, here no money comes in. You have converted a part of the asset into an expense called depreciation. So, this should summarize the different transactions with respect to assets of the business. Largely, there will be other transactions; but purchasing, selling and charging depreciation on fixed asset is taken care of by similar transactions.

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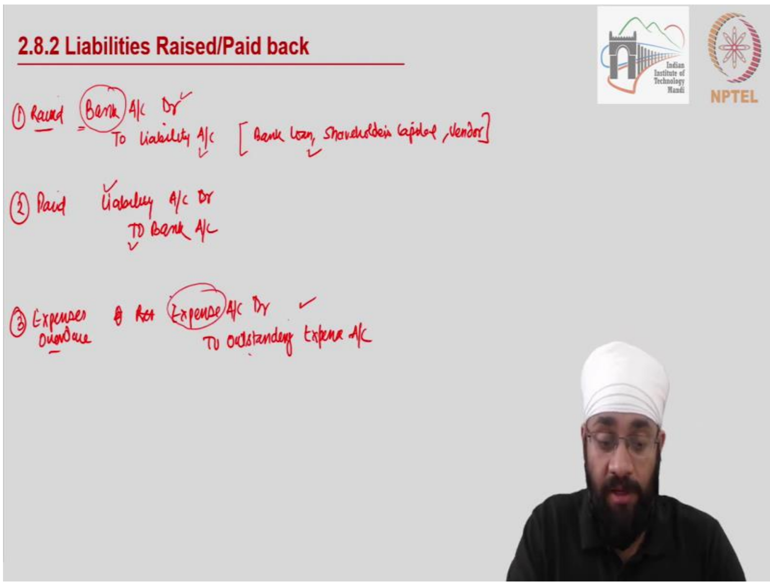

Let me go on to the liabilities now. When you raise a liability, for example, a bank loan is raised or capital is raised, you get money against it. So, the bank account is debited and the name of the liability is written here. So, a liability account is credited. Now, liability account can be a bank loan, it can be shareholders' capital or it can be a vendor: whosoever has supplied money or another resource to you. So, this is typically how liability is going to be raised or transaction done. When you pay back the liability the transaction is reversed. Liability accounts are given the opposite treatment which is debit and you pay for it to the bank account. Another way that we saw the liability could be created is when expense becomes overdue. When expense becomes overdue, now I am just replacing this; instead of you know paying for an expense, you have outstanding liability. For example, let me write expenses. Expense account debit to outstanding expense; outstanding expense account. This is another way of raising the liability, generating a liability. These two data number 1 and number 3 are also similar in nature and finally, when you pay them back, you have outstanding expenses debit to bank. So, liability debit to bank; bank debit to liability, I am just trying to show a variation that is possible that you are not getting the money, but that money is becoming just due. So, that is a summary of how transactions relating to liabilities are written.

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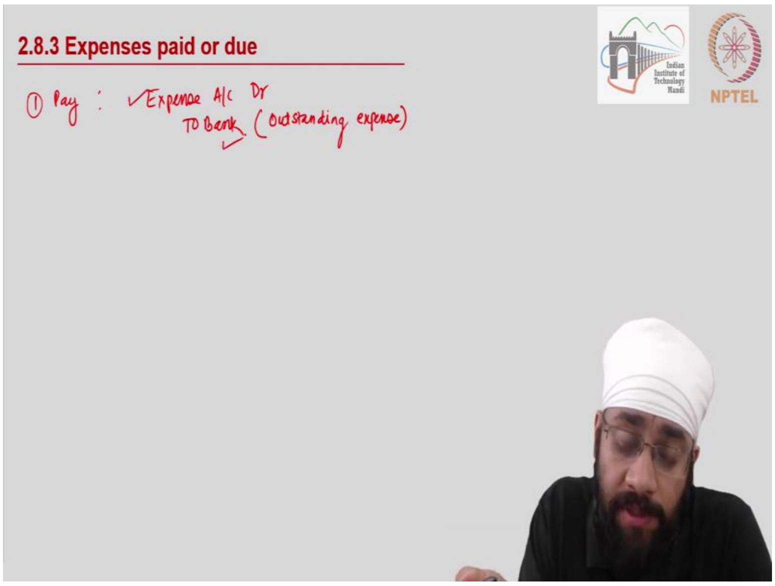

Expenses may be paid or if they are not paid then they become due. So, when you pay the expenses, you have the name of the expense. So, expense account debit and you pay for them through bank or cash. If you do not pay for them in bank or cash, then you have an item called item outstanding expense, we just saw it in the previous slide. So, outstanding expenses are created as a liability. So, all the expenses regardless of what the name or the nature, we have Expense A/c (Dr.), To Bank A/c. That is how all expenses are going to be recorded.

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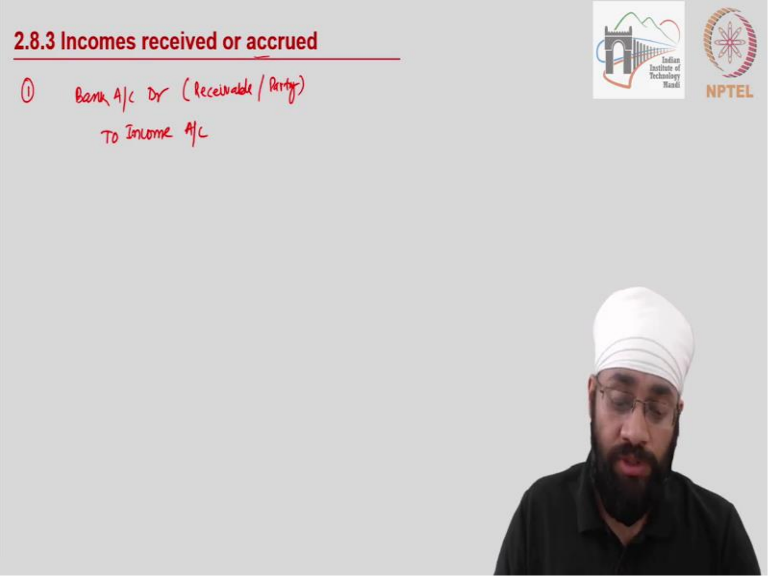

Then, you have incomes received or accrued. Accrued means becoming due but not received. When you receive an income, you have money coming in. So, you say Bank A/c (Dr.), To name of the income account. Now, money could be received or not received. If money is not received, you write the name of the receivable; receivable or the party, the customer, or whoever you have to receive this money from. This becomes an asset, it is created in this process, but all income related transactions are going to be written in this way.

So, that is it, I wanted to just summarize again linking everything back to the 4 key accounting terms; assets, liabilities, income and expenses. We went through a detailed tutorial and we looked at the patterns there and now, I have summarized how transactions relating to asset, liability, income, expenses are related. They follow a pattern and how you could try to think more intuitively about these things.

I will see you in the next video.