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**Manual Accounting - Module 11**

**Special Entries in Accounting**

Special entries in accounting refer to journal entries that are not part of the regular day-to-day transactions of a business. These entries are made to account for specific financial activities that need special attention due to their nature or impact on the financial statements. They often involve adjustments, corrections, or unique financial events. Here are some common types of special entries:

**Explanation of Each Special Entry:**

**1. Bad Debts Recovered:** When a business recovers bad debts previously written off, it records the inflow of cash and acknowledges the recovery as income. This improves the cash flow and profit of the business.

Date	Particulars	LF	Debit (₹)	Credit (₹)
	Cash / Bank A/c Dr.		XXXX	
	To Bad Debts Recovered A/c			XXXX
	(Being bad debts previously written off now recovered)			

Transaction: When bad debts previously written off are recovered.

**Entry:**

- Debit: Cash A/c (Increase in cash)
- Credit: Bad Debts Recovered A/c (Income from recovered debts)

**2. Outstanding Expenses:** These entries ensure that all expenses incurred during the period are accounted for, even if they haven't been paid yet. This provides a more accurate picture of the business's liabilities and expenses.

Date	Particulars	LF	Debit (₹)	Credit (₹)
	Expense A/c Dr.		XXXX	
	To Outstanding Expenses A/c			XXXX
	(Being expense outstanding at the end of the period)			

Transaction: Recording salary that is outstanding and yet to be paid.

**Entry:**

- Debit: Salary A/c (Expense incurred)
- Credit: Outstanding Salary A/c (Liability created)

**3. Prepaid Expenses:** When a business pays for expenses in advance, these payments are recorded as assets. As the benefits of these prepaid expenses are

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realized over time, the prepayments are expensed incrementally to match the periods in which they benefit the business.

Date	Particulars	LF	Debit (₹)	Credit (₹)
	Prepaid Expense A/c Dr.		XXXX	
	To Expense A/c			XXXX
	(Being expense paid in advance)			

Transaction: Payment of insurance premium in advance.

**Entries:**

- When paid:
  - Debit: Insurance Premium A/c (Expense paid)
  - Credit: Cash A/c (Cash outflow)
- When recording the prepayment:
  - Debit: Prepaid Insurance A/c (Asset created)
  - Credit: Insurance Premium A/c (Adjusting expense)

**4. Depreciation:** Depreciation allocates the cost of a tangible fixed asset over its useful life. This ensures that the expense is matched with the revenue generated from the asset over its life, providing a more accurate picture of profitability.

Date	Particulars	LF	Debit (₹)	Credit (₹)
	Depreciation A/c Dr.		XXXX	
	To Asset A/c			XXXX
	(Being depreciation charged on asset)			

Transaction: Allocation of the cost of an asset over its useful life.

**Entry:**

- Debit: Depreciation A/c (Expense incurred)
- Credit: Asset A/c (Reduction in asset value)

**5. Interest on Capital:** Interest on capital is provided to the owner's capital account as compensation for the use of their funds in the business. This encourages the owner to invest more capital into the business.

Date	Particulars	LF	Debit (₹)	Credit (₹)
	Interest on Capital A/c Dr.		XXXX	
	To Capital A/c			XXXX
	(Being interest allowed on capital)			

Transaction: Interest provided to the capital of the business.

**Entry:**

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- Debit: Interest on Capital A/c (Expense incurred)
- Credit: Capital A/c (Increase in capital)

**6. Interest on Drawings:** Charging interest on drawings discourages the owner from withdrawing too much money from the business, ensuring sufficient capital remains for business operations.

Date	Particulars	LF	Debit (₹)	Credit (₹)
	Drawings A/c Dr.		XXXX	
	To Interest on Drawings A/c			XXXX
	(Being interest charged on drawings)			

Transaction: Interest charged on the amount withdrawn by the proprietor.

**Entry:**

- Debit: Drawings A/c (Increase in drawings)
- Credit: Interest on Drawings A/c (Income earned)

**7. Expenditure on Installation of Machinery and Erection of Building:** This expenditure is capitalized because it provides long-term benefits to the business. By debiting the asset account, the business acknowledges the increase in its assets.

Date	Particulars	LF	Debit (₹)	Credit (₹)
	Machinery / Building A/c Dr.		XXXX	
	To Cash / Bank A/c			XXXX
	(Being installation/erection expenses capitalised)			

Transaction: Expenditure incurred on installing machinery and erecting a building, treated as capital expenditure.

**Entry:**

- Debit: Machinery A/c (Increase in asset)
- Debit: Building A/c (Increase in asset)
- Credit: Cash A/c (Cash outflow)

These special entries are essential for accurate financial reporting and compliance with accounting standards. They help in reflecting the true financial position and performance of the business.

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Solved Example

**Ques:** Pass necessary journal entries for the following:

1. October 20, 2023: Received Rs. 2,000 from Subhash which was written off as bad debts in the previous year.
2. October 25, 2023: Salaries due to clerks Rs. 5,000.
3. October 30, 2023: Out of the rent paid this year, Rs. 1,000 is related to the next year.
4. October 31, 2023: Provide @10% depreciation on furniture of Rs. 50,000.
5. October 31, 2023: Provide @20% interest on capital of Rs. 1,00,000.
6. October 31, 2023: Charge interest on drawings Rs. 8,000.

**Solution:**  
Journal Entries

Date	Particulars	LF	Debit (Rs.)	Credit (Rs.)
Oct 20, 2023	Cash A/c Dr.		2,000	
	To Bad Debts Recovered A/c			2,000
	<i>(Being amount received from Subhash written off as bad debts earlier)</i>			
Oct 25, 2023	Salaries A/c Dr.		5,000	
	To Outstanding Salaries A/c			5,000
	<i>(Being salaries due to clerks)</i>			
Oct 30, 2023	Prepaid Rent A/c Dr.		1,000	
	To Rent A/c			1,000
	<i>(Being rent paid in advance for next year)</i>			
Oct 31, 2023	Depreciation on Furniture A/c Dr.		5,000	
	To Furniture A/c			5,000
	<i>(Being depreciation @10% on furniture)</i>			
Oct 31, 2023	Interest on Capital A/c Dr.		20,000	
	To Capital A/c			20,000
	<i>(Being interest on capital @20%)</i>			
Oct 31, 2023	Drawings A/c Dr.		8,000	
	To Interest on Drawings A/c			8,000
	<i>(Being interest charged on drawings)</i>			

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Assignment

Ques 1: Pass necessary journal entries for the following:

1. December 1, 2023: Received Rs. 5,000 from Rahul which was previously written off as bad debts.
2. December 5, 2023: Paid salaries to employees Rs. 10,000.
3. December 10, 2023: Out of the insurance premium paid this year, Rs. 2,000 is related to the next year.
4. December 15, 2023: Provided @12% depreciation on vehicles worth Rs. 1,20,000.
5. December 20, 2023: Provided @15% interest on capital of Rs. 3,00,000.
6. December 25, 2023: Charged interest on drawings Rs. 12,000.
7. December 30, 2023: Received Rs. 7,500 from a client as a refund for overpayment.

Ques 2: Pass necessary journal entries for the following:

1. January 1, 2023: Received Rs. 4,000 from Varun which was previously written off as bad debts.
2. January 5, 2023: Paid rent for the office Rs. 8,000.
3. January 10, 2023: Out of the legal fees paid this year, Rs. 1,500 is related to the next year.
4. January 15, 2023: Provided @10% depreciation on machinery worth Rs. 60,000.
5. January 20, 2023: Provided @18% interest on capital of Rs. 2,50,000.
6. January 25, 2023: Charged interest on drawings Rs. 7,500.
7. January 30, 2023: Received Rs. 6,000 from a debtor towards the settlement of accounts.

Ques 3: Pass necessary journal entries for the following:

1. February 1, 2023: Received Rs. 6,500 from Deepak which was previously written off as bad debts.
2. February 5, 2023: Paid electricity bill Rs. 12,000.
3. February 10, 2023: Out of the repair expenses incurred this year, Rs. 2,500 is related to the next year.
4. February 15, 2023: Provided @8% depreciation on computers worth Rs. 40,000.
5. February 20, 2023: Provided @20% interest on capital of Rs. 1,50,000.
6. February 25, 2023: Charged interest on drawings Rs. 9,000.
7. February 28, 2023: Received Rs. 8,000 from a customer as an advance payment for services.

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Ques 4: Pass necessary journal entries for the following:

1. March 1, 2023: Received Rs. 8,000 from Suresh which was previously written off as bad debts.
2. March 5, 2023: Paid insurance premium Rs. 15,000.
3. March 10, 2023: Out of the maintenance expenses incurred this year, Rs. 3,000 is related to the next year.
4. March 15, 2023: Provided @15% depreciation on office furniture worth Rs. 50,000.
5. March 20, 2023: Provided @25% interest on capital of Rs. 2,00,000.
6. March 25, 2023: Charged interest on drawings Rs. 10,000.
7. March 30, 2023: Received Rs. 9,500 from a client for services rendered.

Ques 5: Pass necessary journal entries for the following:

1. April 1, 2023: Received Rs. 7,500 from Ramesh which was previously written off as bad debts.
2. April 5, 2023: Paid telephone expenses Rs. 6,000.
3. April 10, 2023: Out of the advertisement expenses incurred this year, Rs. 2,000 is related to the next year.
4. April 15, 2023: Provided @10% depreciation on office equipment worth Rs. 70,000.
5. April 20, 2023: Provided @18% interest on capital of Rs. 1,80,000.
6. April 25, 2023: Charged interest on drawings Rs. 8,500.
7. April 30, 2023: Received Rs. 10,000 from a customer for goods sold.

Ques 6: Pass necessary journal entries for the following:-

1. Biroo who owed us Rs. 1,500 is declared insolvent and 65 paise in a rupee is received as final dividend from his estate.
2. Sold goods to Kitty list price Rs. 2,000, trade discount 10% and cash discount 5%. He paid the amount on the same day and availed the cash discount.
3. Purchased Goods for Rs. 3,78,000 from Akbar and supplied it to Jatin for Rs. 4,00,000.

Ques 7: Pass necessary journal entries for the following:-

1. Received a Cheque from J. Peterson Rs. 5,450. Allowed him discount Rs. 150. Cheque is immediately deposited into bank.
2. Returned goods to Sudershan of the value of Rs.350
3. Issued a cheque in favour of M/S Karanvir Timber Co. on account of the purchase of Timber of Rs. 7,500.
4. Purchased Machinery for Rs. 50,000 by cheque and installation charges at machinery Rs. 2,500 paid in cash.
5. Purchased Goods for Rs. 1, 00,000 from Ajay and supplied it to Vijay for Rs.1, 20,000.

