

JOURNAL

Journal is a daily record of business transactions. It is also called a 'Day Book' and is used for recording all day today transactions in the order in which they occur. It is a book of prime entry (also called book of original entry) because all transactions are recorded first in this book. The process of recording a transaction in the journal is called 'Journalising' and the entries made in this book are called journal entries.

PERFORMA OF JOURNAL:

Date	Particulars	L.F.	Dr. Amount(Rs.)	Cr. Amount(Rs.)

The Journal is divided into five columns. The first column is used for writing the date of the transaction. It is customary to write the year at the top of the column only once and then in the next line the month and date are written.

The second column called 'Particulars' column. The names of the two accounts affected by the transaction are to be recorded in this column. The name of the account to be debited is written first. The abbreviation 'Dr,' for debit is also written against the name of the account to be debited. It is written on the same line very close to the L. F. column. In the next line, the name of the account to be credited is written. It is always preceded by the word 'To'. It is not necessary to write 'Cr.' against the name of the account to be credited. In the next line, a brief description of the transaction is also given within brackets. It is called 'Narration'. After writing the narration a line is drawn in the particulars column to separate one entry from the other.

The third column L. F. (Ledger Folio) is meant for writing the page number of the ledger where the concerned account appears. This column is filled at the time of posting into the ledger. The fourth and the fifth columns are meant for recording the amounts with which the two accounts have been affected, the amount to be debited is entered in the debit amount column against the name of the account debited, and the amount to be credited is entered in the credit amount

column against the name of the account credited. Both the amounts will always be equal.

Transactions relating to goods:

The term goods refer to articles which are traded by the firm i.e., articles bought for resale. For example, for a book-seller books are goods, for an electrical store fans and other electrical items are goods, for a furniture dealer table and chairs are goods. Articles bought, for using them in business are not to be treated as goods. They may be fixed assets or consumables and are to be treated as such in books of account.

The transactions relating to goods include purchases, sales, purchases returns and sales returns. Normally, as per rules, when goods are bought you will debit the Goods Account and when they are sold you will credit the Goods Account. Similarly, when goods are returned by your customer you will debit the Goods Account and when you return goods to the suppliers, you will credit the Goods Account. In other words, for all transaction relating to goods you will maintain only one account viz., Goods Account.

i) Purchases Account - for recording all purchases of goods

ii) Sales Account - for recording all sales of goods

iii) Returns Onwards Account or Purchases Returns Account - for recording goods returned to suppliers

iv) Returns Inwards Account or Sales Returns Account - For recording goods returned by customers

v) Stock Account -for goods in stock (unsold goods) as at the end of the year

Thus, when goods are purchased you will debit the Purchases Account and when they are sold you will the credit the Sales Account. Similarly, when goods are returned by your customers you will debit the Returns Inwards Account (or Sales Returns Account) and when you return goods to the suppliers you will credit Returns Outwards Account (or Purchases Returns Account). There will be no Goods Account at all. This helps in ascertaining the amount of purchases and sales more quickly and correctly.

Importance and Use of Journal

A journal is useful in the following ways:

1. As all business transactions are recorded in the journal in chronological order (i.e. in the order of date), it facilitates quick and easy reference.
2. As it contains debit and credit aspects of every transaction, it provides a complete record of all business transactions.
3. As it contains narration (i.e. brief explanation for every transaction), it helps understand the nature (i.e. essential features) of every transaction.
4. As each transaction is recorded in the journal as debit and credit, it makes the posting of the entries to the ledger easy.

Advantages of Journal

The advantages of the Journal are as follows:

- (a) It reduces the possibility of error.
- (b) It provides an explanation of the transaction.
- (c) It provides a chronological record of all the transactions.

Limitations of Journal

The limitations of the Journal are as follows:

- (a) Too lengthy as all transactions are recorded.
- (b) Cannot find the balances of accounts easily from the journal.
- (c) As we maintain subsidiary books, the use of journal is limited.

Pro Forma of Journal

The pro forma of journal should be as follows.

1. **Date:** It should be written in the Year, Month and Day sequence (YMD)
2. **Particulars:** This column is to record the Debit element and the Credit element of the transaction. At the end of the debited account's name, the word **Dr.** should be written and the second line is for the account to be credited, which should be preceded by the word **To** as seen in the proforma above.
3. **Ref. No.:** In this column, we record the bill no., invoice no, etc., which is a proof of the transaction.
4. **L/F No.:** Ledger folio is the column in which we record the page number of the Ledger account for further reference.
5. **Debit Amount:** This is to write the amount to be debited to the debit account.
6. **Credit Amount:** This is to write the amount to be credited to the credit account.

Example :

Soraj Mart furnishes the following information :

Transactions during the month of April, 2014 are as under :

<i>Date</i>	<i>Details</i>
01.4.2014	Business started with cash Rs. 1,50,000.
01.4.2014	Goods purchased form Manisha Rs. 36,000.
01.4.2014	Stationery purchased for cash Rs. 2,200.
02.4.2014	Open a bank account with SBI for Rs. 35,000.
02.4.2014	Goods sold to Priya for Rs. 16,000.
03.4.2014	Received a cheque of Rs. 16,000 from Priya.
05.4.2014	Sold goods to Nidhi Rs. 14,000.
08.4.2014	Nidhi pays Rs. 14,000 cash.
10.4.2014	Purchased goods for Rs. 20,000 on credit from Ritu.
14.4.2014	Insurance paid by cheque Rs. 6,000.
18.4.2014	Paid rent Rs. 2,000.
20.4.2014	Goods costing Rs. 1,500 given as charity.
24.4.2014	Purchased office furniture for Rs. 11,200.
29.4.2014	Cash withdrawn for household purposes Rs. 5000.
30.4.2014	Interest received cash Rs.1,200.
30.4.2014	Cash sales Rs.2,300.
30.4.2014	Commission paid Rs. 3,000 by cheque.
30.4.2014	Telephone bill paid by cheque Rs. 2,000.
30.4.2014	Payment of salaries in cash Rs. 12,000.

Journalise the transactions.

Solution

**Books of Saroj Mart
Journal**

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Debit Amount Rs.</i>	<i>Credit Amount Rs.</i>
2014 Apr.01	Cash A/c Dr. To Capital A/c (Business started with cash)		1,50,000	1,50,000
Apr.01	Purchases A/c Dr. To Manisha A/c (Goods purchase on credit)		36,000	36,000
Apr.01	Stationery A/c Dr. To Cash A/c (Purchase of stationery for cash)		2,200	2,200
	Total c/f		1,88,200	1,88,200

	Total b/f		1,88,200	1,88,200
Apr.02	Bank A/c Dr. To Cash A/c (Opened a bank account with SBI)		35,000	35,000
Apr.02	Priya A/c Dr. To Sales A/c (Goods sold to Priya On Credit)		16,000	16,000
Apr.03	Bank A/c Dr. To Priya A/c (Cheque Received from Priya)		16,000	16,000
Apr.05	Nidhi A/c Dr. To Sales A/c (Sale of goods to Nidhi on credit)		14,000	14,000
Apr.08	Cash A/c Dr. To Nidhi A/c (Cash received from Nidhi)		14,000	14,000
Apr.10	Purchases A/c Dr. To Ritu A/c (Purchase of goods on credit)		20,000	20,000
Apr.14	Insurance Premium A/c Dr. To Bank A/c (Payment of Insurance premium by cheque)		6,000	6,000
Apr.18	Rent A/c Dr. To Cash A/c (Rent paid)		2,000	2,000
Apr.20	Charity A/c Dr. To Purchases A/c (Goods given as charity)		1,500	1,500
Apr.24	Furniture A/c Dr. To Cash A/c (Purchase of office furniture)		11,200	11,200
Apr.29	Drawings A/c Dr. To Cash A/c (With drawl of cash from the business for personal use of the proprietor)		5,000	5,000
Apr.30	Cash A/c Dr. To Interest received A/c (Interest received)		1,200	1,200
Apr.30	Cash A/c Dr. To Sales A/c (Sale of goods for cash)		2,300	2,300
	Total c/f		3,32,400	3,32,400

	Total c/f		3,32,400	3,32,400
Apr.30	Commission A/c To Bank A/c (Commission paid by cheque)	Dr.	3,000	3,000
Apr.30	Telephone expenses A/c To Cash A/c (Payment of telephone bill)	Dr.	2,000	2,000
Apr.30	Salaries A/c To Cash A/c (Payment of salary to the office persons)	Dr.	12,000	12,000
	Total		3,49,400	3,49,400

2. On January 1, 2003, the position of Tamarind Hotels was as follows: Stock in hand ₹ 2400; Bills payable ₹ 400; Cash at bank ₹ 1800; Kitchen equipment ₹ 100; Owing by debtors ₹ 500; Owing to creditors ₹ 800; Investments ₹ 2000; Loan from S Sethi ₹ 1500. What was the amount of Tamarind Hotels' capital on that date (1.1. 03)? Prepare the Opening Journal entry.

Solution:

Journal Entries in the Books of Tamarind Hotels

Date	Particulars	L/F	Dr. Amt.	Cr. Amt.
2003 Jan. 1	Stock in hand	Dr.	2400	
	Cash at bank	Dr.	1800	
	Kitchen equipment	Dr.	100	
	Owings by debtors	Dr.	500	
	Investments	Dr.	2000	
	To Creditors			800
	To Loan from Sethi			1500
	To Bills payable			400
	To Capital (balancing fig.)			4100

4. Journalize the following transactions of Mr. Sohan:

2005		₹
Jan. 1	Sohan started business with cash	50,000
2	Purchased goods for cash	10,000
5	Purchased goods from Mohan on credit	6000
7	Paid into bank	5000
10	Purchased furniture	2000
15	Sold goods for cash	7000
20	Sold goods to Ram on credit	5000
25	Cash sales	3500
26	Paid to Mohan on account	3000
28	Paid wages	100
30	Paid rent	200
31	Paid salaries	800

Journal Entries

<i>Date</i>	<i>Particulars</i>	<i>L/F</i>	<i>Dr. Amt.</i>	<i>Cr. Amt.</i>
2005 Jan. 1	Cash A/c To Capital A/c (Being started business)	Dr.	50,000	50,000
2	Purchase A/c To Cash A/c (Being purchased goods)	Dr.	10,000	10,000
5	Purchase A/c To Mohan	Dr.	6000	6000
7	Bank A/c To Cash A/c (Being cash paid into bank)	Dr.	5000	5000
10	Furniture A/c To Cash A/c (Being Furniture purchased)	Dr.	2000	2000
15	Cash A/c To Sales A/c (Being sold goods)	Dr.	7000	7000

25	Cash A/c To Sales A/c (Being sold goods)	Dr.		3500	3500
26	Mohan To Cash A/c (Being paid to Mohan)	Dr.		3000	3000
28	Wages A/c To Cash A/c (Being paid wages)	Dr.		100	100
30	Rent A/c To Cash (Being rent paid)	Dr.		200	200
31	Salaries A/c To Cash A/c (Being Salaries paid)	Dr.		800	800

5. Journalize the following transactions:

2006		₹
Jan. 1	Ram commenced business with cash	30,000
2	Paid into bank	21,000
3	Purchased goods	1500
7	Drew cash from bank for office use	3000
10	Sold goods to Hari on credit	1000
15	Purchased goods from Shyam	1500
20	Cash sales	3000
25	Paid Shyam	1475
	Discount received	25
30	Paid rent	500
31	Paid salaries	1000

Journal Entries

<i>Date</i>	<i>Particulars</i>	<i>L/F</i>	<i>Dr. Amt.</i>	<i>Cr. Amt.</i>
2006 Jan. 1	Cash A/c To Ram's Capital (Being started business)	Dr.	30,000	30,000

7	Cash A/c To Bank A/c (Being withdrawn from bank for office use)	Dr.		3000	3000
10	Hari To Sales A/c (Being bought goods on credit from Hari)	Dr.		1000	1000
15	Purchase A/c To Shyam (Being goods bought from Shyam)	Dr.		1500	1500
20	Cash A/c To Sales A/c (Being sold goods)	Dr.		3000	3000
25	Shyam To Cash A/c To Discount received (Being paid cash to Shyam and allowed him a discount)	Dr.		1500	1475 25
30	Rent A/c To Cash A/c (Being rent paid)	Dr.		500	500
31	Salaries A/c To Cash A/c (Being paid salary)	Dr.		1000	1000