

6

JOURNAL

MODULE - II

*Journal and Other
Subsidiary Books*

Notes

You have learnt that business transactions are recorded in various books of accounts in a systematic manner. You have also learnt the double entry system of accounting. Now, you would like to know what are those books of accounts? How are these prepared? What transactions are recorded in each such book. One of these books is Journal. This is a book which is prepared by every businessman small or big. Business transactions are recorded in this book date wise and in the order in which these transactions take place. In this lesson you will learn the meaning of journal, its purpose and the method of preparing the journal.

**OBJECTIVES**

After studying this lesson you will be able to:

- explain the meaning of journal with its purpose;
- draw journal as per format;
- explain the process of journalising;
- journalise the simple and compound transactions and
- classify journal into special journal and journal proper.

6.1 MEANING OF JOURNAL

Journal is a book of accounts in which all day to day business transactions are recorded in a chronological order i.e. in the order of occurrence. 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’.

You have learnt that business transactions of financial nature are classified into various categories of accounts such as assets, liabilities, capital, revenue and expenses. All business transactions belonging to any of these categories can be recorded in a journal. The process of recording transactions in the journal is known as ‘Journalising’.

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General Journal				
Transaction Details		GL Ref	Debit	Credit
Year	Day	Account Name	Account Name	
Month	30		XXXX	XXXX
March				XXXX

Annotations:

- Amounts debited and credited (points to Debit and Credit columns)
- General Ledger account number (points to GL Ref column)
- Name of account credited (points to Debit Account Name)
- Short description of transaction (points to Description Of Transaction)
- Name of account debited (points to Credit Account Name)

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Small business units generally maintain one journal in which all the business transactions are recorded. But in case of big business houses as the transactions are large in number, the journal is divided into various books which are called special journals. Different transactions are recorded in these books depending upon the nature of transactions for example all credit sales of goods are recorded in Sales Book, all credit purchases of goods are recorded in Purchase Book and Cash transactions in Cash Book and so on.

Purpose of Preparing Journal

1. It provides the date wise record of all the business transactions.
2. It gives complete information about a transaction at one place and also provides an explanation of the transaction.
3. It helps in the understanding of the principles of Double Entry System as entries in Journal are classified into Debit and Credit.
4. It is easier to post the entries of this book into ledger without any difficulty.

6.2 FORMAT OF JOURNAL

Every page of journal has the following format :

Journal

Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
(1)	(2)	(3)	(4)	(5)

You see that journal is a columnar book. Each column is given a name which is written on its top. Column wise details of journal is as follows :

1. **Date:** In this column we record the date of the transaction with its month and accounting year. Year is written only once. Month is also written only once for all the transactions belong to a particular month.
2. **Particulars:** The accounts affected by a transaction i.e. the accounts which have to be debited and credited are recorded in this column. In the first line write the name of the account to be debited against which Dr is written. In the second line after leaving some space name of the account which has to be credited is written. The word 'To' may be prefixed with it. In the next line narration is written. Narration is the explanation of a particular journal entry. It should be short, complete and clear. A line is drawn before making the next entry so as to separate the two.

Note : As per modern concept of Accounting you may write journal entry even without writing 'To' for a credit entry.

3. **Ledger folio:** The transaction in the journal is posted in the ledger. Page number of ledger on which the two accounts are opened is written in the column of ledger folio.

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4. **Dr. Amount :** In this column the amount to be debited is written against the same line in which the debited account is written.
5. **Cr. Amount :** In this column, the amount to be credited is written against the same line in which the credited account is written

You can understand the journalising of a transaction with the help of the following example:

2012

April 1 Commenced business with cash ₹10,000.

In this transaction two affected accounts are Capital A/c and Cash A/c. The journal entry for the same will be.

Journal

Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
2012 April 1	Cash A/c... Dr. Capital A/c (Business commenced with cash)		10,000	10,000

At the end of each page the two columns are totalled and are carried forward to the next page with words 'carried forward' (c/f). This total is written in the next page on its top with words 'brought forward' (b/f).



INTEXT QUESTIONS 6.1

- I. **Complete the sentences stating the meaning of journal**
 - i. Journal is book of accounts in which _____.
 - ii. Narration is the _____.
 - iii. Ledger folio column is used _____.
- II. **Following statements about journal are incorrect, correct them:**
 - i. Only cash transactions are recorded in journal
 - ii. There is no other name of journal
 - iii. Every businessman big or small maintains one journal book.

6.3 PROCESS OF JOURNALISING

Following steps are taken while preparing a journal.

- i) **Identify the accounts :** First of all the affected accounts of an accounting transaction are identified. For example 'Goods of ₹5000 sold for cash

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is a transaction. The affected accounts are Sales A/c and Cash A/c.

- ii) **Recognize the Account :** Now the type of two accounts are ascertained i.e. as asset, liability, capital, expense or revenue. In the given example Cash A/c is an asset A/c and Sales A/c is a revenue A/c.
- iii) **Apply the rules of Debit and Credit :** You have learnt the rules of Debit and Credit. Now ascertain which account is to be debited and which is to be credited. In our example, sales account will be credited as sales (a revenue item) is increasing and cash A/c will be debited as cash (is an asset) is also increasing.

Now, the Journal entry will be recorded and narration will be written. Amounts will be written against the two accounts in their respective columns.

Journal entry of the above given transaction will be recorded as follows:

Journal

Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
	Cash A/c... Dr. Sales A/c (Goods sold for cash)		5,000	5,000

Illustration 1

Analyse the following transactions using the Modern Approach for classification of Accounts in a Tabular Form.

2012		₹
Jan 1	Amogh started business with cash	50,000
Jan 2	Paid into Bank	20,000
Jan 4	Goods purchased for cash	10,000
Jan 8	Machinery purchased and paid by cheque	5,000
Jan 12	Sold goods to Pranaya	12,000
Jan 15	Purchased goods from Gunakshi	16,000
Jan 18	Sold goods for cash	8,000
Jan 20	Received cash from Pranaya	12,000
Jan 31	Withdrew cash for personal use	2,400
Jan 31	Rent Paid	2,000

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Solution

Let us first analyze the transactions.

Tabular Analysis of Business Transactions

Date	Transaction	Affected Accounts	Kinds of Accounts	Increase/Decrease	Account to be Debited	Account to be Credited
2012						
Jan. 1	Cash Received from owner Amogh	Cash Capital	Asset Capital	Increase Increase	Cash A/c	Capital A/c
Jan. 2	Paid into Bank	Bank Cash	Asset Asset	Increase Decrease	Bank A/c	Cash A/c
Jan. 4	Goods Purchased for cash	Purchases Cash	Expense Asset	Increase Decrease	Purchases A/c	Cash A/c
Jan. 8	Machinery Purchased and paid by cheque	Machinery Bank	Asset Asset	Increase Decrease	Machinery A/c	Bank A/c
Jan. 12	Sold goods to Pranaya	Pranaya Sales	Pranaya (Debtor) Sales (Revenue)	Increase Increase	Pranaya	Sales A/c
Jan. 15	Purchased goods from Gunakshi	Purchases Gunakshi	Expenses Gunakshi (Creditor)	Increase Increase	Purchases A/c	Gunakshi
Jan. 18	Sold goods for cash	Cash Sales	Asset Revenue	Increase Increase	Cash A/c	Sales A/c
Jan. 20	Cash received from Pranaya	Cash Pranaya	Asset Pranaya (Debtor)	Increase Decrease	Cash A/c	Pranaya
Jan. 31	Withdrew cash for personal use	Drawings Cash	Capital Asset	Decrease Decrease	Drawings A/c	Cash A/c
Jan. 31	Rent Paid	Rent Cash	Expense Asset	Increase Decrease	Rent A/c	Cash A/c

Illustration 2

On the basis of above analysis now you can prepare journal which will be as follows:

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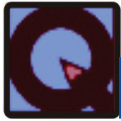


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Journal of Amogh

Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
2012				
Jan. 1	Cash A/c ... Dr. Capital A/c (Capital brought in by Amogh)		50,000	50,000
Jan. 2	Bank A.c ... Dr. Cash A/c (Cash paid into bank)		20,000	20,000
Jan. 4	Purchase A/c ... Dr. Cash A/c (Goods purchase for cash)		10,000	10,000
Jan. 8	Machinery A/c ... Dr. Bank A/c (Machinery purchased & paid by cheque)		15,000	15,000
Jan. 12	Pranaya A/c ... Dr. Sales A/c (Goods sold on credit)		12,000	12,000
Jan. 15	Purchases A/c ... Dr. Gunakshi (Goods purchased on credit)		16,000	16,000
Jan. 18	Cash A/c ... Dr. Sales A/c (Goods sold for cash)		8,000	8,000
Jan. 20	Cash A/c ... Dr Pranaya A/c (Cash received from debtor Pranaya)		12,000	12,000
Jan. 31	Drawings A/c ... Dr. Cash A/c (Cash withdrawn for personal use)		2,400	2,400
Jan. 31	Rent A/c ... Dr. Cash A/c (Rent paid)		2,000	2,000
			1,47,400	1,47,400


INTEXT QUESTIONS 6.2

Given below are some transactions. Write the names and types of accounts affected in the given debit and credit columns.

Transaction	Dr.		Cr.	
	Name of A/c	Type of A/c	Name of A/c	Type of A/c
i. Purchased goods and paid by cheque.				
ii. Paid salary.				
iii. Cash received from Apoorva a debtor.				
iv. Goods sold to Maya				
v. Cash withdrawn for personal use.				

Notes

Compound Entries

The journal entries which you have learnt so far affect two accounts only. There can be entries that affect more than two accounts. Such entries are called 'Compound' or 'Combined' entries. A compound entry contains more than one debit or credit or both, for example :-

- Cash paid for rent ₹2,000 and for salary ₹4,000.
- The Affected accounts are Rent A/c which is to be debited and Salary A/c which is also to be debited as both are items of expense and are increasing.
- Cash A/c is to be credited as Cash A/c is an asset A/c and it decreases by the total of Salary and Rent paid.

Journal entry

Rent A/c	Dr.		2,000	
Salary A/c	Dr.		4,000	
Cash A/c				6,000
(Cash paid for rent and salary)				

Similarly cash paid to Vikram ₹ 4900. He allowed us discount ₹100. Journal entry will be :

Vikram	Dr.		5,000	
Cash A/c				4,900
Discount A/c				100
(Cash paid to Vikram and discount allowed by him)				

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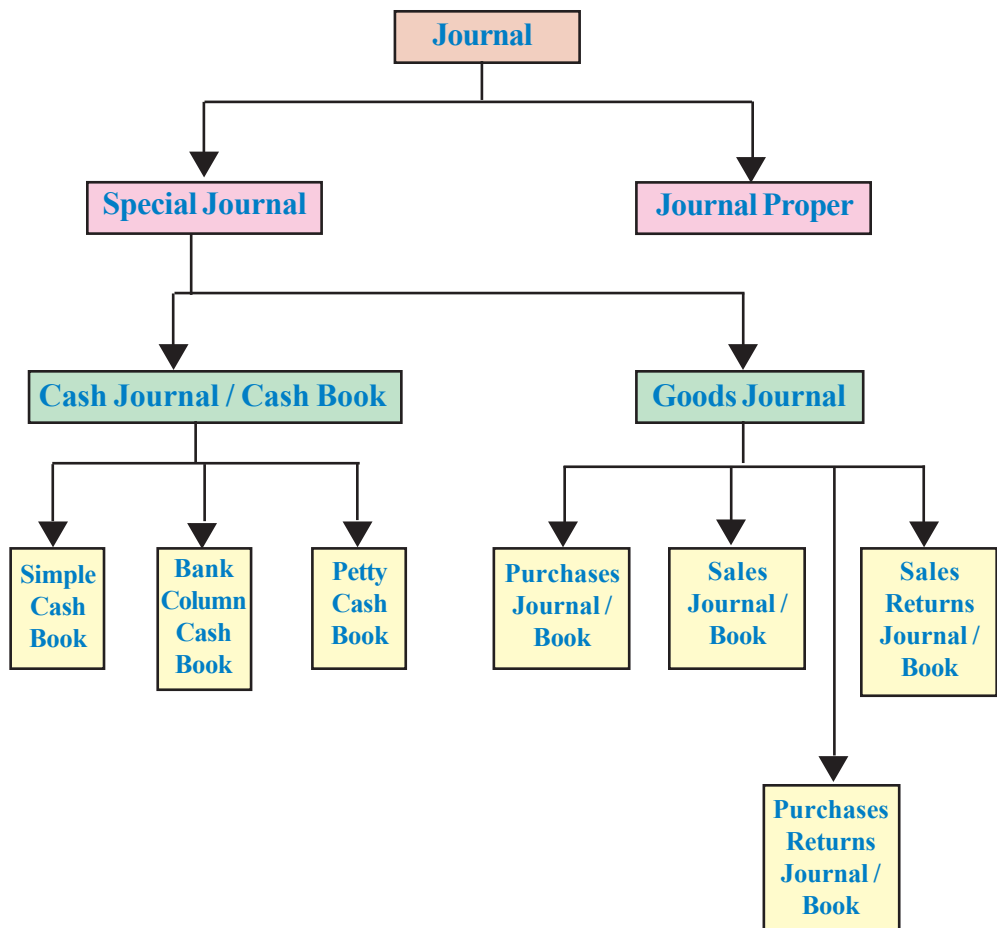
Thus, from the above examples you can understand that the entries having more than one debit or credit are known as compound entries.

6.4 CLASSIFICATION OF JOURNAL

Journal is a book in which transactions are recorded in chronological order date wise, therefore, it will be practically difficult to record all transactions in journal if the number of transactions are large. Hence, arises the need to divide journal into various journals each called a subsidiary book or Special Purpose Book and the journal itself is called Journal Proper. Following are the important subsidiary books (Journals) used by a business enterprise :

- i. Cash book
- ii. Sale book
- iii. Purchases book
- iv. Sale Returns book on Returns Inward book.
- v. Purchases Returns Book or Returns Outward book.
- vi. Journal proper or General Journal.

Chart Showing the Classification of Journal



Journals

Some basic transactions with their Journal Entries.

Journal Entries

Transactions	Journal Entry
1. Purchase of goods on credit	Purchases A/c ...Dr. Supplier A/c
2. Sale of goods of credit	Customer's A/c ...Dr. Sales A/c
3. Cash purchase of assets	Sundry Assets A/c ...Dr. Cash A/c
4. Started business with capital	Cash A/c ...Dr. Capital A/c
5. Collection of cash/cheque from customers (and discount allowed, if any)	Cash/Bank A/c (Net amount) ...Dr. Discount Allowed A/c (Discount) ...Dr. Customer's A/c
6. Goods purchased for cash	Purchases A/c ...Dr. Cash A/c
7. Cash sales	Cash A/c ...Dr. Sales A/c
8. Opening a Bank Account	Bank A/c ...Dr. Cash A/c
9. Recovery of Bad Debt	Cash A/c ...Dr. Bad Debt Recovered A/c
10. For payment of cash/cheque to suppliers (and discount received, if any)	Supplier ...Dr. Cash/Bank A/c (Net Amount) Discount Received A/c (Discount)
11. Bad Debts	Bad Debts A/c ...Dr. Customer's A/c
12. Distribution of goods as free samples.	Free Samples A/c / Advertisement A/c ...Dr. Purchases A/c
13. Purchase of machinery for cash	Machinery A/c ...Dr. Cash A/c

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14. Depreciation charged on fixed assets	Depreciation A/c ...Dr. Asset A/c
15. Withdrawal of cash from bank for business	Cash A/c ...Dr. Bank A/c
16. Sale or disposal of any old asset at a profit	Cash A/c ...Dr. Asset A/c Profit on Sale of Asset A/c
17. Giving goods or cash in charity	Charity A/c ...Dr. Cash A/c Purchases A/c
18. Goods returned to the supplier	Supplier's ...Dr. Returns Outward A/c
19. Sale or disposal of any old asset at a loss	Cash/Bank A/c ...Dr. Loss on Sale or Assets A/c ...Dr. Asset A/c
20. Goods returned by the customer	Returns Inward A/c ...Dr. Customer's A/c

Illustration 3

Journalise the following transactions in the books of Pranaya:

2012	₹
Jan. 1 Commenced business with cash	50,000
Jan. 3 Paid into bank	25,000
Jan. 5 Purchased furniture for cash	5,000
Jan. 8 Purchased goods and paid by cheque	15,000
Jan. 8 Paid for carriage	500
Jan. 14 Purchased goods from Gaurav	35,000
Jan. 18 Cash Sales	32,000
Jan. 20 Sold goods to Amol on credit	28,000
Jan. 25 Paid cash to Gaurav in full settlement	34,200
Jan. 28 Cash received from Amol	27,500
Discount allowed to him	500
Jan. 31 Paid rent for the month	2,000
Jan. 31 Withdrew from the bank for private use	2,500

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Solution

Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
2012				
Jan. 1	Cash A/c Dr. Capital A/c (Commenced business with cash)		50,000	50,000
Jan. 3	Bank A/c Dr. Cash A/c (Cash paid in the bank)		25,000	25,000
Jan. 5	Furniture A/c Dr. Cash A/c (Purchased furniture for cash)		5,000	5,000
Jan. 8	Purchases A/c Dr. Bank A/c (Purchased goods and paid cheque)		15,000	15,000
Jan. 8	Carriage A/c Dr. Cash A/c (Cash paid for carriage charge)		500	500
Jan. 14	Purchases A/c Dr. Gaurav (Goods purchased on credit)		35,000	35,000
Jan. 18	Cash A/c Dr. Sales A/c (Goods sold for cash)		32,000	32,000
Jan. 20	Amol Dr. Sales A/c (Goods sold to Amol on credit)		28,000	28,000
	C/F		1,90,500	1,90,500

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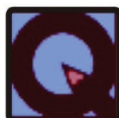
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	B/F	1,90,500	1,90,500
Jan. 25	Gaurav Dr. Cash A/c Discount A/c (Cash paid to Gaurav and discount allowed by him)	35,000	34,200 800
Jan. 28	Cash A/c Dr. Discount A/c Dr. Amol (Cash received from Amol and discount allowed to him)	27,500 500	28,000
Jan. 31	Rent A/c Dr. Cash A/c (Cash paid for rent)	2,000	2,000
Jan. 31	Drawings A/c Dr. Bank A/c (Cash withdrawn from bank for domestic use)	2,500	2,500
		2,58,000	2,58,000



INTEXT QUESTIONS 6.3

Multiple Choice Questions

- i. Purpose of preparing Journal is
 - a) To provide date wise record of all the business transactions.
 - b) To know Profit or Loss of business.
 - c) To know financial position of business.
 - d) To ascertain cash availability on a particular date.
- ii. Compound Journal entry is an entry which
 - a) Contains more than one debit
 - b) Contains more than one credit
 - c) Contains more than one debit or credit or both.
 - d) Does not contain more than one debit or credit.
- iii. Journal is also known as
 - a) Book of secondary entry.
 - b) Book of Primary entry.
 - c) Book of Primary and secondary entry.
 - d) None of the above.

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Subsidiary Books****Notes****Journals****2012**

	₹
Apr. 1 Commenced business with cash	80,000
Apr. 3 Paid into Bank	50,000
Apr. 6 Purchased goods for cash	20,000
Apr. 9 Purchased furniture and paid for it by cheque	15,000
Apr. 14 Sold goods to Neha	18,000
Apr. 19 Purchased goods from Nirmal	24,000
Apr. 21 Withdraw cash for private use	8,000
Apr. 24 Received cheque from Neha	17,600
Allowed her discount	400
Apr. 26 Paid to Nirmal by cheque	16,300
She allowed discount	700
Apr. 27 Sold Goods to Maya for cash	80,000
Apr. 30 Paid Telephone bill	4,200

6. Journalise the following transactions in the journal of Mr. Ram Kumar.

	₹
Commenced business with cash	1,50,000
Purchased goods for cash	1,00,000
Purchased goods from Mohan on credit	26,000
Deposited into bank	15,000
Purchased furniture	72,000
Goods sold for cash	7,000
Goods sold to Kaushik on credit	5,000
Sale of old furniture	3,500
Received from Kamal	3,000
Paid salary	3,100
Paid Rent	4,200
Paid telephone bill	1,800

7. Journalise the following transactions in the books of Smt. Sheela.

	₹
Commenced business with cash	1,30,000
Paid into bank	21,000
Purchase goods	1,500
Withdrew cash from bank	3,000
Sold goods to Sharma	1,000
Purchased goods from Deepak	1,500
Received cash from Sharda	3,000
Paid to Malik	1,475
Rent paid	2,000

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Salary paid to clerk	4,500
Paid for postage	1,000

8. Journalise the following transactions.

2012

	₹
July 1 Commenced business with cash	2,00,000
July 2 Purchased goods on credit from Vivek	1,00,000
July 8 Sold goods for cash	22,400
July 9 Sold goods on credit to Ms/ Anuj & Co.	10,000
July 15 Paid to M/s Balbir Singh & Sons.	11,900
Discount allowed by them	100
July 25 Sold goods to M/s Balkrishan & Sons	5,600
July 27 Received cheque from M/s Anuj & Co. in full settlement of amount due from them	9,750
July 31 Paid for electric charges	3,100
July 31 Paid Salary	2,000
July 31 Paid rent of building by cheque half of the building is used by the proprietor for residential use	5,000
July 31 Withdrew for private use	3,500

9. The following are the transactions of Ranbeer Singh for the month of August. You are required to journalise the same.

2012

	₹
Aug. 1 Started business with cash	2,80,000
Aug. 1 Cash paid into bank	50,000
Aug. 1 Bought stationery for cash	300
Aug. 2 Bought goods for cash	20,000
Aug. 3 Bought postage stamps	100
Aug. 5 Sold goods for cash	7,500
Aug. 6 Bought office furniture from Bhalla furnitures	25,000
Aug. 11 Sold goods to Bhatia Traders	10,000
Aug. 12 Received cheque from Bhatia Traders	10,000
Aug. 14 Paid Bhalla Furnitures	24,500
Aug. 16 Sold goods to Bharat Bhushan	50,000
Aug. 20 Bought goods from Seth & Bros.	27,000
Aug. 23 Bought goods for cash from Ram Narain & Co.	22,500
Aug. 24 Sold goods to Prakash Electric Store	3,500
Aug. 26 Bhatia Traders paid on account	8,000
Aug. 28 Paid Sethi & Bros. by cheque in full settlement	25,000
Aug. 31 Paid salaries to office staff	25,000
Aug. 31 Rent paid for shop	5,000

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10. Shivali Chadha commenced business on 1st January, 2012. Her transactions for the month are given below. Pass necessary journal entries for the same.

2012

	₹
Jan. 1 Commenced business with cash	2,50,000
Jan. 2 Cash Paid into bank	35,000
Jan. 3 Bought goods from Praveen Chauhan	54,000
Jan. 3 Sold goods to Rajesh Agarwal	48,000
Jan. 7 Bought goods from Ram Chand Sahai	16,450
Jan. 8 Paid wages in cash	8,000
Jan. 8 Sold goods to Manish Chugh	15,000
Jan. 10 Received cheque from Rajesh Agarwal	47,800
Jan. 10 Paid into bank	10,000
Jan. 11 Paid to Ramesh	7,000
Jan. 12 Paid rent	4,000
Jan. 13 Bought from Khanna & Khanna	17,400
Jan. 15 Paid Electricity bill	2,800



ANSWER TO INTEXT QUESTIONS

- 6.1 I.**
- i. all transactions are recorded in chronological order.
 - ii. explanation of journal entry.
 - iii. to record page number of ledger on which journal entry is posted.
- II.**
- i. All transactions are recorded in journal.
 - ii. Journal is also known as Day Book.
 - iii. Small businesses maintain one journal while big businesses maintain different special journals.
- 6.2**
- i. Purchase - Expense - Bank - Asset
 - ii. Salary - Expenses - Cash - Asset
 - iii. Cash - Asset - Apporva - Asset
 - iv. Maya - Asset - Sales - Revenue
 - v. Drawing - Capital - Cash - Asset
- 6.3** i) a, ii) c, iii) b, iv) c, v) b.

ACTIVITY FOR YOU

- Observe any ten activities, of a near by shop which can be termed as transactions of business and record them on a page as journal.