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Recording of Transactions-I

Books of Original Entry

In the preceding pages, you learnt about debits and credits and observed how transactions affect accounts. This process of analysing transactions and recording their effects directly in the accounts is helpful as a learning exercise. However, real accounting systems do not record transactions directly in the accounts. The book in which the transaction is recorded for the first time is called journal or book of original entry. The source document, as discussed earlier, is required to record the transaction in the journal. This practice provides a complete record of each transaction in one place and links the debits and credits for each transaction. After the debits and credits for each transaction are entered in the journal, they are transferred to the individual accounts. The process of recording transactions in journal is called journalising. Once the journalising process is completed, the journal entry provides a complete and useful description of the event's effect on the organisation. The process of transferring journal entry to individual accounts is called posting. This sequence causes the journal to be called the Book of Original Entry and the ledger account as the Principal Book of entry. In this context, it should be noted that on account of the number and commonality of most transactions, the journal is subdivided into a number of books of original entry as follows:

- (a) Journal Proper
- (b) Cash book
- (c) Other day books:
 - (i) Purchases (journal) book
 - (ii) Sales (journal) book
 - (iii) Purchase Returns (journal) book
 - (iv) Sale Returns (journal) book
 - (v) Bills Receivable (journal) book
 - (vi) Bills Payable (journal) book

In this chapter you will learn about the process of journalising and their posting into ledger. The cash book and other day books are dealt in detail in chapter 4.

3.4.1 Journal

This is the basic book of original entry. In this book, transactions are recorded in the chronological order, as and when they take place. Afterwards, transactions from this book are posted to the respective accounts. Each transaction is separately recorded after determining the particular account to be debited or credited. The format of Journal is shown in figure 3.5

Journal

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Debit Amount Rs.</i>	<i>Credit Amount Rs.</i>

Fig. 3.5 : Showing the format of journal

The first column in a journal is *Date* on which the transaction took place. In the *Particulars* column, the account title to be debited is written on the first line beginning from the left hand corner and the word 'Dr.' is written at the end of the column. The account title to be credited is written on the second line leaving sufficient margin on the left side with a prefix 'To'. Below the account titles, a

brief description of the transaction is given which is called *Narration*. Having written the *Narration* a line is drawn in the *Particulars* column, which indicates the end of recording the specific journal entry. The column relating to *Ledger Folio* records the page number of the ledger book on which relevant account is appears. This column is filled up at the time of posting and *not* at the time of making journal entry.

The *Debit amount* column records the amount against the account to be debited and similarly the *Credit Amount* column records the amount against the account to be credited. It may be noted that, the number of transactions is very large and these are recorded in number of pages in the journal book. Hence, at the end of each page of the journal book, the amount columns are totaled and carried forward (c/f) to the next page where such amounts are recorded as brought forward (b/f) balances.

The journal entry is the basic record of a business transaction. It may be simple or compound. When only two accounts are involved to record a transaction, it is called a simple journal entry.

For Example, Goods Purchased on credit for Rs.30,000 from M/s Govind Traders on December 24, 2017, involves only two accounts: (a) Purchases A/c (Goods), (b) Govind Traders A/c (Creditors). This transaction is recorded in the journal as follows :

Journal

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
2014 Dec.24	Purchases A/c Dr. To Govind Traders A/c (Purchase of goods- in-trade from Govind Traders)		30,000	30,000

It will be noticed that although the transaction results in an increase in stock of goods, the account debited is purchases, not goods. In fact, the goods account is divided into five accounts, viz. purchases account, sales account, purchases returns account, sales returns account, and stock account. When the number of accounts to be debited or credited is more than one, entry made for recording the transaction is called *compound* journal entry. That means compound journal entry involves multiple accounts. For example, Office furniture is purchased from Modern Furniture's on July 4, 2017 for Rs. 25,000 and Rs. 5,000 is paid by cash immediately and balance of Rs. 20,000 is still payable. It increases furniture (assets) by Rs. 25,000, decreases cash (assets) by Rs. 5,000 and increases liability by Rs. 20,000. The entry made in the journal on July 4, 2017 is :

Journal

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
2017 July 4	Office Furniture A/c Dr. To Cash A/c To Modern Furniture A/c (Purchase of office furniture from Modern Furnitures)		25,000	5,000 20,000

Now refer to example 1 on page 46 again and observe how the transactions listed are recorded in the journal:

**Books of Rohit
Journal**

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Debit Amount Rs.</i>	<i>Credit Amount Rs.</i>
	Cash A/c To Capital A/c (Business started with cash)	Dr.	5,00,000	5,00,000
	Bank A/c To Cash A/c (Opened bank account with State Bank of India)	Dr.	4,80,000	4,80,000
	Furniture A/c To Bank A/c (Purchased furniture and made payment through bank)	Dr.	60,000	60,000
	Plant and Machinery A/c To Cash A/c To Ramjee Lal (Bought Plant and Machinery from M/s Ramjee Lal, made an advance payment by cash for Rs. 10,000 and balance at the later date)	Dr.	1,25,000	10,000 1,15,000
	Purchases A/c To M/s Sumit Traders A/c (Goods bought on credit)	Dr.	55,000	55,000
	Rajani Enterprises A/c To Sales A/c (Goods sold on profit)	Dr.	35,000	35,000
	Total		12,55,000	12,55,000