
UNIT 3 JOURNALISING TRANSACTIONS

Structure

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3.0 INTRODUCTION

Accounting is the art of recording, classifying and summarising the financial transactions and interpreting the results therefore. Thus, the accounting process or cycle involves the following stages:

1. **Recording of transactions.** This is done in the book termed as 'Journal'.
2. **Classifying the transactions.** This is done in the book termed as 'Ledger'.
3. **Summarising the transactions.** This includes preparation of the trial balance, profit and loss account and balance sheet of the business.
4. **Interpreting the results.** This involves computation of various accounting ratios, etc., to know about the liquidity, solvency and profitability of business. The recording of transactions in the Journal is being explained in this unit.

3.1 UNIT OBJECTIVES

After going through this unit, you will be able to:

- Identify the stages of the accounting cycle
- Appreciate the role of the Journal in recording business transactions
- Understand the rules of debit and credit applicable to different type of business transactions
- Describe the various categories of accounts
- Pass appropriate entries for recording transactions in the Journal

3.2 JOURNAL

The Journal records all the daily transactions of a business in the order in which they occur. A Journal may therefore be defined as a book containing a chronological record of transactions. It is the book in which the transactions are recorded first of all under the double entry system. Thus, the Journal is the book of original record. A Journal does not replace but precedes the Ledger. The process of recording transactions in a Journal, is termed as Journalising. A pro forma of a Journal is given below:

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Debit Rs</i>	<i>Credit Rs</i>
(1)	(2)	(3)	(4)	(5)

Fig. 3.1 Pro Forma of a Journal

1. **Date.** The date on which the transaction was entered is recorded here.
2. **Particulars.** The two aspects of transaction are recorded in this column, *i.e.*, the details regarding accounts which have to be debited and credited.
3. **L.F.** This stands for Ledger Folio. The transactions entered in the Journal are later on posted to the ledger. The relevant ledger folio is entered here. The procedure regarding posting the transactions in the Ledger has been explained in the next chapter.
4. **Debit.** In this column, the amount to be debited is entered.
5. **Credit.** In this column, the amount to be credited is shown.