



23BAT605-FINANCIAL STATEMENT ANALYSIS

Journal

A journal may be defined as the book or original or prime entry containing a chronological record of the transactions from which posting is done to the ledger. The transactions are recorded first in the journal in the order in which they occur.

Explanation:

1. **Date :** In the first column, the date of the transaction is entered. The year and the month is written only once, till they change. The sequence of the dates and months should be strictly maintained.
2. **Particulars :** Each transaction affects two accounts, out of which one account is debited and the other account is credited. The name of the account to be debited is written first, very near to the line of particulars column and the word Dr. is also written at the end of the particulars column. In the second line, the name of the account to be credited is written, starts with the word 'To', a few space away from the margin in the particulars column to the make it distinct from the debit account.
3. **Narration :** After each entry, a brief explanation of the transaction together with necessary details is given in the particulars column with in brackets called narration. The words 'For' or 'Being' are used before starting to write down narration. Now, it is not necessary to use the word 'For' or 'Being'.
4. **Ledger Folio (L.F):** All entries from the journal are later posted into the ledger accounts. The page number or folio number of the Ledger, where the posting has been made from the Journal is recorded in the L.F column of the Journal. Till such time, this column remains blank.
5. **Debit Amount :** In this column, the amount of the account being debited is written.
6. **Credit Amount :** In this column, the amount of the account being credited is written.

Steps in Journalising

The process of analysing the business transactions under the heads of debit and credit and recording them in the Journal is called Journalising. An entry made in the journal is called a 'Journal Entry'.

Step 1 Determine the two accounts which are involved in the transaction. Step 2 Classify the above two accounts under Personal, Real or Nominal. Step 3 Find out the rules of debit and credit for the above two accounts.

Step 4 Identify which account is to be debited and which account is to be credited.

Step 5 Record the date of transaction in the date column. The year and month is written once, till they change. The sequence of the dates and months should be strictly maintained.

Step 6 à Enter the name of the account to be debited in the particulars column very close to the left hand side of the particulars column followed by the abbreviation Dr. in the same line. Against this, the amount to be debited is written in the debit amount column in the same line.

Step 7 Write the name of the account to be credited in the second line starts with the word 'To' a few space away from the margin in the particulars column. Against this, the amount to be credited is written in the credit amount column in the same line.

Step 8 Write the narration within brackets in the next line in the particulars column.

Step 9 Draw a line across the entire particulars column to separate one journal entry from the **other**.

Example 1:

January 1, 2004 – Amir started business with Rs. 1,00,000

Step 1	Determine the two accounts involved in the transaction.	Cash Account	Capital Account
Step 2	Classify the accounts under personal, real or nominal.	Real Account	Personal Account
Step 3	Find out the rules of debit and credit.	2(a) Debit what comes in.	1(b) Credit the giver
Step 4	Identify which account is to be debited and credited.	Cash A/c is to be debited	Capital A/c is to be credited

Solution :

Journal

Date	Particulars	LF	Debit		Credit	
			Rs.	P.	Rs.	P.
2004	Cash A/c Dr.	12	1,00,000	-		
Jan 1	To Capital A/c (The amount invested in the business)	45			1,00,000	-

Example 2:

- On 1st June 2016 goods sold for Rs. 2000
- On 2nd June 2016 goods purchase from XYZ ltd for Rs.5000

General Journal

Date	Particulars	Ledger Folio (LF)	Ref	Debit Amount	Credit Amount
1/6/2016	Cash -----Dr To, Sales (Being cash sales to Mr X)	15		2000	2000
2/6/2016	Purchase -----Dr To, XYZ Ltd (Credit Purchase from XYZ ,Invoice No xxx)	12		5000	5000

Example 3:

- Journalise the following transactions in the books of Amar and post them in the Journal:- 2004
- March 1 Bought goods for cash Rs. 25,000
- 2 Sold goods for cash Rs. 50,000
- 3 Bought goods for credit from Gopi Rs.19,000
- 5 Sold goods on credit to Robert Rs.8,000
- 7 Received from Robert Rs. 6,000
- 9 Paid to Gopi Rs.5,000
- 20 Bought furniture for cash Rs.7,000

Solution : **Journal of Amar**

Date	Particulars	LF	Debit		Credit	
			Rs.	P.	Rs.	P.
2004 Mar 1	Purchases A/c Dr. To Cash A/c (Cash purchases)		25,000	-	25,000	-
2	Cash A/c Dr. To Sales A/c (Cash Sales)		50,000	-	50,000	-
3	Purchases A/c Dr. To Gopi A/c (Credit purchases)		19,000	-	19,000	-
5	Robert A/c Dr. To Sales A/c (Credit Sales)		8,000	-	8,000	-
7	Cash A/c Dr. To Robert A/c (Cash received)		6,000	-	6,000	-
9	Gopi A/c Dr. To Cash A/c (Cash paid)		5,000	-	5,000	-
20	Furniture A/c. Dr. To Cash A/c (furniture purchased)		7,000	-	7,000	-