

## **What is a Journal Entry?**

Journal entries are the first step in the accounting cycle and are used to record all business transactions and events in the accounting system. As business events occur throughout the accounting period, journal entries are recorded in the general journal to show how the event changed in the accounting equation. For example, when the company spends cash to purchase a new vehicle, the cash account is decreased or credited and the vehicle account is increased or debited.

## **How to Make a Journal Entry?**

Here are the steps to making an accounting journal entry.

### **1. Identify Transactions**

There are generally three steps to making a journal entry. First, the business transaction has to be identified. Obviously, if you don't know a transaction occurred, you can't record one. Using our vehicle example above, you must identify what transaction took place. In this case, the company purchased a vehicle. This means a new asset must be added to the accounting equation.

### **2. Analyze Transactions**

After an event is identified to have an economic impact on the accounting equation, the business event must be analyzed to see how the transaction changed the accounting equation. When the company purchased the vehicle, it spent cash and received a vehicle. Both of these accounts are asset accounts, so the overall accounting equation didn't change. Total assets increased and decreased by the same amount, but an economic transaction still took place because the cash was essentially transferred into a vehicle.

### **3. Journalizing Transactions**

After the business event is identified and analyzed, it can be recorded. Journal entries use debits and credits to record the changes of the accounting equation in the general journal. Traditional journal entry format dictates that debited accounts are listed before credited accounts. Each journal entry is also accompanied by the transaction date, title, and description of the event. Here is an example of how the vehicle purchase would be recorded.

Since there are so many different types of business transactions, accountants usually categorize them and record them in separate journal to help keep track of business events. For instance, cash was used to purchase this vehicle, so this transaction would most likely be recorded in the cash disbursements journal.

Mr. Alam is a sole trader. During the first month of operation of her business, the following events and transactions occurred.

- May 1            Mr. Alam invested Tk 22000 cash.
- May2            Hired a secretary –receptionist at a salary of Tk 2000 per month.
- May 3            Purchased Tk 2500of supplies on account from Read Supply Company
- May 4            Paid office rent Tk 900 cash for the month.
- May11           Received TK 3500 advance on a management consulting engagement.
- May 17           Received TK 1200 cash for services completed for H.Arnold Co.
- May31           Paid secretary –receptionist TK 2000 salary for the month.
- May 31           Paid 40%of balance due Read Supply Company.

Instructions:

Journalize the transactions