

CHAPTERS 1-30

College Accounting

Price
Haddock
Farina

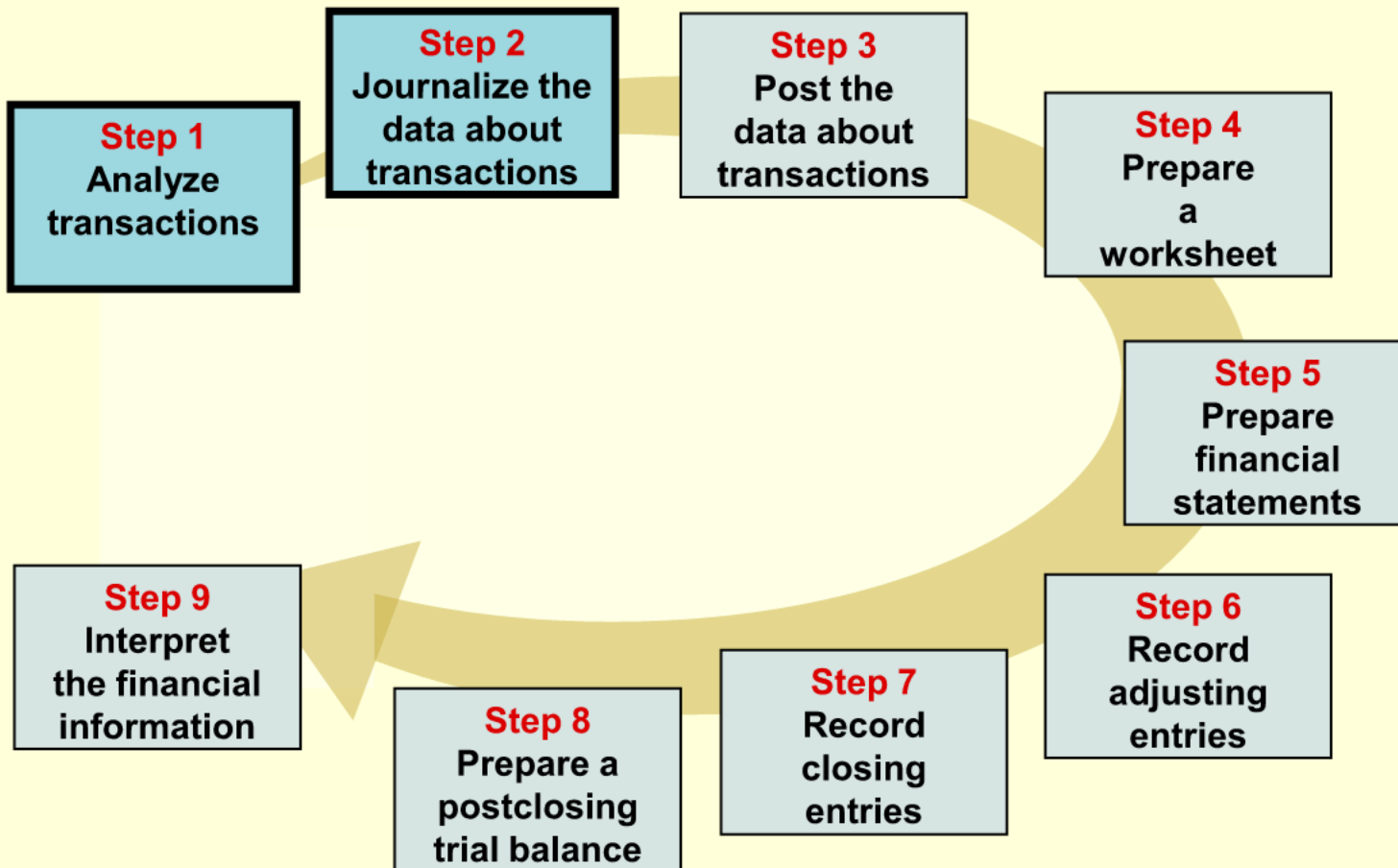
The General Journal and the General Ledger

Section 1: The General Journal

Section Objectives

1. Record transactions in the general journal.
2. Prepare compound journal entries.

The Accounting Cycle



Journal

- A journal is a diary of business activities.
- There are different types of journals.
- Transactions are entered in the journal in chronological order.

GENERAL JOURNAL

PAGE 1

| DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT |
|----------------|-------------------------------|------------|-----------|-----------|
| 2010 Nov. 6 | Cash Jason Taylor, Capital | | 90,000.00 | 90,000.00 |

Enter the account to be debited.

Enter the amount on the same line in the Debit column.

Enter the account to be credited.

Enter the amount on the same line in the Credit column.

GENERAL JOURNAL

PAGE 1

| DATE | | DESCRIPTION | POST. REF. | DEBIT | CREDIT |
|------|---|---|------------|-----------|-----------|
| 2010 | | | | | |
| Nov. | 6 | Cash Jason Taylor, Capital Investment by owner, Memo 01 | | 90,000.00 | 90,000.00 |

Then enter a complete but concise description of the transaction.

Whenever possible, the journal entry should refer to the source of the information.

Document numbers are part of the audit trail.

Recording a Business Transaction

1. Analyze the financial event.

- Identify the accounts affected.
- Classify the accounts affected.
- Determine the amount of increase or decrease for each account affected.

2. Apply the rules of debit and credit.

- a. Which account is debited? For what amount?
- b. Which account is credited? For what amount?

3. Make the entry in T-account form.

4. Record the complete entry in general journal form.

Cash Investment by Owner

On November 6 Jason Taylor withdrew \$90,000 from personal savings and deposited it in a new business checking account for JT's Consulting Services.

GENERAL JOURNAL

PAGE 1

| DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT |
|----------------|--|---------------|-----------|-----------|
| 2010 Nov. 6 | Cash Jason Taylor, Capital (Investment by owner) | | 90,000.00 | 90,000.00 |

Cash Purchase of Equipment

On November 7 JT's Consulting Services issued Check 1001 for \$10,000 to purchase a computer and other equipment.

GENERAL JOURNAL

PAGE 1

| DATE | | DESCRIPTION | POST. REF. | DEBIT | CREDIT |
|------|---|---|---------------|-----------|-----------|
| Nov. | 7 | Equipment Cash (Purchased equip., Check 1001) | | 10,000.00 | 10,000.00 |

Credit Purchase of Equipment

On November 10, JT's Consulting Services purchased office equipment on account for \$12,000.

GENERAL JOURNAL

PAGE 1

| DATE | | DESCRIPTION | POST. REF. | DEBIT | CREDIT |
|------|----|---|---------------|-----------|-----------|
| Nov. | 10 | Equipment Accounts Payable Purchased equipment on account from Office Plus, Inv. 2223, due in 60 days | | 12,000.00 | 12,000.00 |

Cash Purchase of Supplies

On November 28, JT's Consulting Services purchased supplies for \$3,000, Check 1002.

GENERAL JOURNAL

PAGE 1

| DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT |
|---------|--|---------------|----------|----------|
| Nov. 28 | Supplies Cash (Purchased supplies, Ck. 1002) | | 3,000.00 | 3,000.00 |

Payment to a Creditor

On November 30 JT's Consulting Services paid Office Plus \$5,000 in partial payment of Invoice 2223, Check 1003.

GENERAL JOURNAL

PAGE 1

| DATE | | DESCRIPTION | POST. REF. | DEBIT | CREDIT |
|------|----|---|---------------|----------|----------|
| Nov. | 30 | Accounts Payable Cash Paid on account, Office Plus, Invoice 2223, Check 1003 | | 5,000.00 | 5,000.00 |

Recording Prepaid Rent

On November 30, JT's Consulting Services wrote Check 1004 for \$7,000 to prepay rent for December and January.

GENERAL JOURNAL

PAGE 1

| DATE | | DESCRIPTION | POST. REF. | DEBIT | CREDIT |
|------|----|---|---------------|----------|----------|
| Nov. | 30 | Prepaid Rent Cash Paid Dec. and Jan. rent in advance; Check 1004 | | 7,000.00 | 7,000.00 |

Services performed for cash.

JT's Consulting performed services for \$26,000 in cash.

GENERAL JOURNAL

PAGE 2

| DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT |
|-----------------|--|---------------|-----------|-----------|
| 2010 Dec. 31 | Cash Fees Income Performed services for cash | | 26,000.00 | 26,000.00 |

Performed services on account.

JT's Consulting performed services on account for \$9,000.

GENERAL JOURNAL

PAGE 2

| DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT |
|---------|------------------------------|------------|----------|----------|
| Dec. 31 | Accounts Receivable | | 9,000.00 | |
| | Fees Income | | | 9,000.00 |
| | Performed services on credit | | | |

Received Cash From Credit Clients

Received \$4,000 in cash from a credit client on account.

GENERAL JOURNAL

PAGE 2

| DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT |
|---------|--|---------------|----------|----------|
| Dec. 31 | Cash Accounts Receivable Received cash from credit clients on account | | 4,000.00 | 4,000.00 |

Paid Salaries

Paid \$7,000 for salaries.

GENERAL JOURNAL

PAGE 2

| DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT |
|---------|--|---------------|----------|----------|
| Dec. 31 | Salaries Expense | | 7,000.00 | |
| | Cash | | | 7,000.00 |
| | Paid monthly salaries to employees, Check 1005-1006 | | | |

Paid Utility Bill

JT's consulting paid \$500 in cash for a utility bill.

GENERAL JOURNAL

PAGE 2

| DATE | | DESCRIPTION | POST. REF. | DEBIT | CREDIT |
|------|----|---|---------------|--------|--------|
| Dec. | 31 | Utilities Expense Cash Paid monthly bill for utilities, Check 1007 | | 500.00 | 500.00 |

Owner's Withdrawal

The owner, Jason Taylor, withdrew \$4,000 from the company.

GENERAL JOURNAL

PAGE 2

| DATE | | DESCRIPTION | POST. REF. | DEBIT | CREDIT |
|------|----|--|---------------|----------|----------|
| Dec. | 31 | Jason Taylor, Drawing Cash Owner withdrew cash for personal expenses, Check 1008 | | 4,000.00 | 4,000.00 |

The General Journal and the General Ledger

Section 2: The General Ledger

Section Objectives

3. **Post journal entries to general ledger accounts.**
4. **Correct errors made in the journal or ledger.**

Ledgers

- **The ledger contains a separate form for each account.**
- **The third step of the accounting cycle is posting to the ledger.**

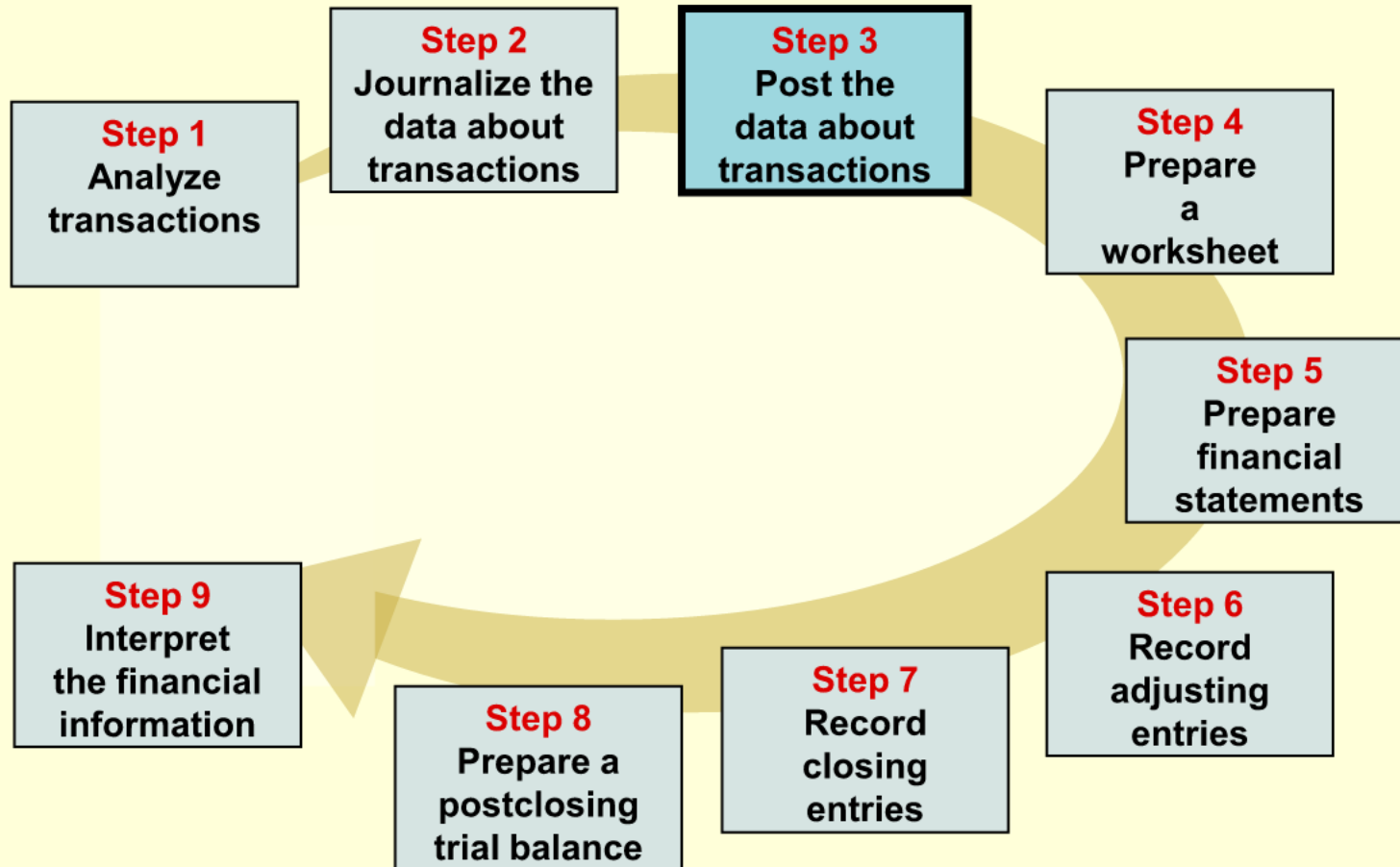
QUESTION:

What is posting?

ANSWER:

Posting is the process of transferring data from a journal to a ledger.

The Accounting Cycle



Ledger Account Forms

On the ledger account form shown below, notice the:

- Account name and number
- Columns for date, description, and posting reference
- Columns for debit, credit, debit balance, and credit balance

| ACCOUNT | | | ACCOUNT NO. | | | |
|----------------|-------------|------------|-------------|--------|-----------|--------|
| CASH | | | 101 | | | |
| DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | DEBIT | CREDIT |
| 2010 Nov. 6 | | J1 | 90,000.00 | | 90,000.00 | |

Five Steps for Posting

- 1. On the ledger form, enter the date of the transaction. Enter a description of the entry, if necessary. Usually, routine entries do not require descriptions.**
- 2. On the ledger form, enter the general journal page in the Posting Reference column.**
- 3. On the ledger form, enter the debit amount in the Debit column or the credit amount in the Credit column.**
- 4. On the ledger form, compute the balance and enter it in the Debit Balance column or the Credit Balance column.**
- 5. On the general journal, enter the ledger account number in the Posting Reference column.**

Step 1: On the ledger form, enter the date of the transaction. Enter a description of the entry, if necessary. Usually, routine entries do not require descriptions.

| GENERAL JOURNAL | | | | | PAGE | 1 |
|-----------------|--|------------|-----------|--------|------|-----------|
| DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT | | |
| 2010 Nov. 7 | Equipment Cash Purchased equipment Check 1001 | | 10,000.00 | | | 10,000.00 |

| ACCOUNT | | <i>Equipment</i> | | ACCOUNT NO. | | 141 | |
|----------------|-------------|------------------|-----------|-------------|-----------|--------|--|
| DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT | BALANCE | | |
| | | | | | DEBIT | CREDIT | |
| 2010 Nov. 7 | | J1 | 10,000.00 | | 10,000.00 | | |

Step 2: On the ledger form, enter the general journal page in the Posting Reference column. The letter J refers to the general journal.

| GENERAL JOURNAL | | | | | PAGE | 1 |
|-----------------|--|--|------------|-----------|-----------|---|
| DATE | DESCRIPTION | | POST. REF. | DEBIT | CREDIT | |
| 2010 Nov. 7 | Equipment Cash Purchased equipment Check 1001 | | | 10,000.00 | 10,000.00 | |

| ACCOUNT | | | <i>Equipment</i> | | | | ACCOUNT NO. | | 141 |
|----------------|-------------|------------|------------------|--------|---------|-----------|-------------|--------|-----|
| DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT | BALANCE | | DEBIT | CREDIT | |
| | | | | | | | | | |
| 2010 Nov. 7 | | J1 | 10,000.00 | | | 10,000.00 | | | |

Step 3: On the ledger form, enter the debit amount in the Debit column or the credit amount in the Credit column.

| GENERAL JOURNAL | | | | | PAGE | 1 |
|-----------------|--|--|------------|-----------|-----------|---|
| DATE | DESCRIPTION | | POST. REF. | DEBIT | CREDIT | |
| 2010 Nov. 7 | Equipment Cash Purchased equipment Check 1001 | | | 10,000.00 | 10,000.00 | |

| ACCOUNT | | | <i>Equipment</i> | | | | ACCOUNT NO. | | 141 |
|----------------|-------------|------------|------------------|--------|---------|-----------|-------------|--------|-----|
| DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT | BALANCE | | DEBIT | CREDIT | |
| | | | | | | | | | |
| 2010 Nov. 7 | | J1 | 10,000.00 | | | 10,000.00 | | | |

Step 4: On the ledger form, compute the balance and enter it in the Debit Balance column or the Credit Balance column.

| GENERAL JOURNAL | | | | | PAGE | 1 |
|-----------------|---|--|------------|-----------|-----------|---|
| DATE | | DESCRIPTION | POST. REF. | DEBIT | CREDIT | |
| 2010 Nov. | 7 | Equipment Cash Purchased equipment Check 1001 | | 10,000.00 | 10,000.00 | |

| ACCOUNT | | | <i>Equipment</i> | | | | ACCOUNT NO. | | 141 |
|----------------|-------------|------------|------------------|--------|---------|--|-------------|--------|-----|
| DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT | BALANCE | | DEBIT | CREDIT | |
| | | | | | | | | | |
| 2010 Nov. 7 | | J1 | 10,000.00 | | | | 10,000.00 | | |

Step 5: On the general journal, enter the ledger account number in the Posting Reference column.

| GENERAL JOURNAL | | | | | PAGE | 1 |
|-----------------|-------------|--|------------|-----------|-----------|---|
| DATE | DESCRIPTION | | POST. REF. | DEBIT | CREDIT | |
| 2010 Nov. | 7 | Equipment Cash Purchased equipment Check 1001 | 141 | 10,000.00 | 10,000.00 | |

| ACCOUNT | | <i>Equipment</i> | | | ACCOUNT NO. | | 141 |
|----------------|-------------|------------------|-----------|--------|-------------|--------|-----|
| DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT | BALANCE | | |
| | | | | | DEBIT | CREDIT | |
| 2010 Nov. 7 | | J1 | 10,000.00 | | 10,000.00 | | |

General Ledger Accounts

In the general ledger accounts, the balance sheet accounts appear first and are followed by the income statement accounts. The order is:

- Assets
- Liabilities
- Owner's equity
- Revenue
- Expenses

This **order of accounts** speeds the preparation of the trial balance and the financial statements.

Objective 4 Correct errors made in the journal or ledger

Journal and Ledger Errors

Sometimes errors are made when recording transactions in the journal.

The method used to correct an error depends on whether or not the journal entry has been posted to the ledger.

Correcting Journal and Ledger Errors

- If an error is discovered *before* the entry is posted, neatly cross out the incorrect item and write the correct data above it.
- To ensure honesty and provide a clear audit trail, erasures are not made in the journal.

Before Posting

On September 1 an automobile repair shop purchased some shop equipment for \$9,000 in cash.

By mistake the journal entry debited the *Office Equipment* account rather than the *Shop Equipment* account.

Before Posting

| GENERAL JOURNAL | | | | | PAGE | 1 |
|-----------------|--|---------------|----------|----------|------|---|
| DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT | | |
| 2010 Sept. 1 | Office Equipment Shop Equipment Cash Purchased equipment Check 2141 | | 9,000.00 | 9,000.00 | | |

- The accountant would neatly cross out Office Equipment and write Shop Equipment above it.
- The correct account Shop Equipment would be posted to the ledger in the usual manner.

Correcting Journal and Ledger Errors

- If the error is discovered *after* posting, a correcting entry – a journal entry made to correct the erroneous entry – is journalized and posted.
- Do not erase or change the journal entry or the postings in the ledger accounts.
- Note that erasures are never permitted in the journal or ledger.

After Posting

On September 1 an automobile repair shop debited Office Equipment rather than Shop Equipment for \$9,000 by mistake.

The debit was posted to the *Office Equipment* account in the general ledger.

A correcting journal entry must be journalized and posted.

After Posting

| GENERAL JOURNAL | | | | | PAGE <u>1</u> |
|-----------------|---|-----------------------------------|---------------|----------|---------------|
| DATE | | DESCRIPTION | POST. REF. | DEBIT | CREDIT |
| 2010 Sept. | 1 | Office Equipment | 141 | 9,000.00 | |
| | | Cash | 101 | | 9,000.00 |
| | | Purchased equipment Check 2141 | | | |

This erroneous journal entry was posted to the general ledger.

After Posting

| GENERAL JOURNAL | | | | | PAGE <u>1</u> |
|-----------------|---|------------|----------|----------|---------------|
| DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT | |
| 2010 Oct. 1 | Shop Equipment | 151 | 9,000.00 | | |
| | Office Equipment | 141 | | 9,000.00 | |
| | To correct error made on Sept. 1 when a purchase of shop equipment was recorded as office equipment | | | | |

- The correcting journal entry debits Shop Equipment and credits *Office Equipment* for \$9,000.
- The entry transfers \$9,000 out of the *Office Equipment* and into the *Shop Equipment* account.

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