

# 4

## Recording Transactions in a General Journal

### AFTER STUDYING CHAPTER 4, YOU WILL BE ABLE TO:

1. Define accounting terms related to journalizing transactions.
2. Identify accounting concepts and practices related to journalizing transactions.
3. Record in a general journal transactions to set up a business.
4. Record in a general journal transactions to buy insurance for cash and supplies on account.
5. Record in a general journal transactions that affect owner's equity and receiving cash on account.
6. Start a new journal page.

### TERMS PREVIEW

journal  
journalizing  
entry  
general journal  
double-entry  
accounting  
source document  
check  
invoice  
sales invoice  
receipt  
memorandum

### JOURNALS AND JOURNALIZING

As described in Chapter 3, transactions are analyzed into debit and credit parts before information is recorded. A form for recording transactions in chronological order is called a **journal**. Recording transactions in a journal is called **journalizing**.

Transactions could be recorded in the accounting equation. However, most companies wish to create a more permanent record by recording transactions in a journal.

Each business uses the kind of journal that best fits the needs of that business. The nature of a business and the number of transactions to be recorded determine the kind of journal to be used.

The word *journal* comes from the Latin *diurnalis*, meaning daily. Most businesses conduct transactions every day. To keep from getting overloaded, the businesses will make entries in their accounting journals every day.



*The Small Business Administration (SBA) has programs that offer free management and accounting advice to small business owners. The SBA sponsors various workshops and publishes a variety of booklets for small business owners.*

# ACCOUNTING IN YOUR CAREER

## HIGH STANDARDS FOR JOURNALIZING

Sandra Huffman has worked for Marquesa Advertising for 30 days as an accounting clerk, a position for which the company owner, Ramona Marquesa, hired her. She journalizes all transactions, about 50 per day, handles all incoming and outgoing mail, prepares and files all source documents, and performs other duties as assigned.

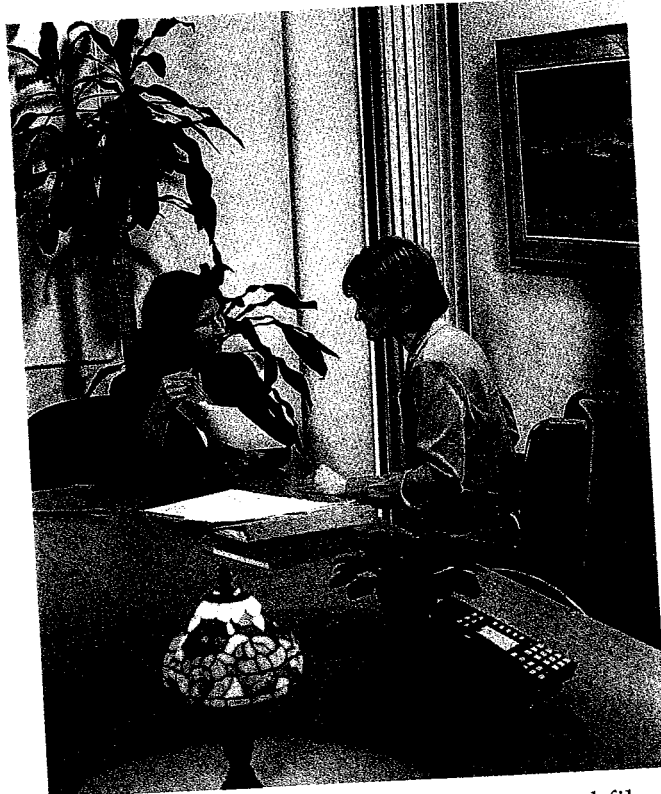
One day Ramona asked to see the journal. Sandra handed the journal to Ramona, who scanned a few pages while Sandra fidgeted in her chair. Sandra didn't know exactly what to expect, but she knew she had not done as good a job with journalizing transactions as she should have.

Ramona then sighed and said, "I'm concerned about this journal, Sandra. You have recorded all transactions in pencil, and I notice numerous erasures. I don't know if the debits equal the credits, but I can see right away that this one transaction for \$20,000 should have been for \$2,000. Some of the dates are missing and some are out of order. What do you suggest we do to turn this situation around?"

After apologizing, Sandra thanked Ramona for giving her the chance to improve her work. She explained that she realized she had not been giving the journal the priority it required and went on to describe how she would improve her performance in the future.

### **Critical Thinking:**

1. What do you think Sandra should say about the journal to demonstrate that she knows it is important?
2. What specific improvements do you think Sandra should make?



# 4-1 Journals, Source Documents, and Recording Entries in a Journal

## A GENERAL JOURNAL

GENERAL JOURNAL										PAGE
DATE		ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT			CREDIT		
1										1
2										2
3										3
4										4
5										5
6										6
7										7
8										8
9										9

### Using a Journal

Information for each transaction recorded in a journal is called an **entry**. A journal with two amount columns in which all kinds of entries can be recorded is called a **general journal**. Encore Music uses a general journal.

The columns in Encore Music's general journal are Date, Account Title, Doc. No., Post. Ref., Debit, and Credit. The use of each column is described later in this chapter.

### Accuracy

Information recorded in a journal includes the debit and credit parts of each transaction recorded in one place. The information can be verified by comparing the data in the journal with the transaction data to assure that all information is correct.

### Chronological Record

Transactions are recorded in a journal by date in the order in which the transactions occur. All information about each transaction is recorded in one place, making the information for a specific transaction easy to locate.

### Double-Entry Accounting

The recording of debit and credit parts of a transaction is called **double-entry accounting**.

In double-entry accounting, each transaction affects at least two accounts. Both the debit part and the credit part are recorded for each transaction. This procedure reflects the dual effect of each transaction on the business's records. Double-entry accounting assures that debits equal credits.

### Source Documents

A business paper from which information is obtained for a journal entry is called a **source document**. Each transaction is described by a source document that proves that the transaction did occur. For example, Encore Music prepares a check stub for each cash payment made. The check stub describes information about the cash payment transaction for which the check is prepared. The accounting concept, *Objective Evidence*, is applied when a source document is prepared for each transaction. (CONCEPT: *Objective Evidence*)

A transaction should be journalized only if it actually occurs. The amounts recorded must be accurate and true. Nearly all transactions result in the preparation of a source document. Encore Music uses five source documents: checks, sales invoices, receipts, calculator tapes, and memorandums.

## CHECKS

NO. 1 \$ 1,577.00  
 Date August 3 20--  
 To Quick Clean Supplies Co.  
 For Supplies

BAL. BRO'T. FOR'D.		0 00
AMT. DEPOSITED	8 17	10,000 00
SUBTOTAL	Date	10,000 00
OTHER:		
SUBTOTAL		10,000 00
AMT. THIS CHECK		1,577 00
BAL. CAR'D. FOR'D.		8,423 00

**Encore Music**  
 530 Anoka Avenue  
 Tampa, FL 33601

NO. 1 63-109 631  
August 3 20--

PAY TO THE ORDER OF Quick Clean Supplies Co. \$ 1,577.00  
One thousand five hundred seventy-seven and no/100 DOLLARS

Peoples national bank  
 Tampa, FL 33602  
 For Classroom Use Only

FOR Supplies Barbara Treviño

⑆066101098⑆ 43⑈452119⑈

A business form ordering a bank to pay cash from a bank account is called a **check**. The source document for cash payments is a check. Encore Music makes all cash payments by check. The checks are prenumbered to help Encore Music account for all checks. Encore Music's

record of information on a check is the check stub prepared at the same time as the check. A check and check stub prepared by Encore Music are shown.

Procedures for preparing checks and check stubs are described in Chapter 6.

## SALES INVOICES

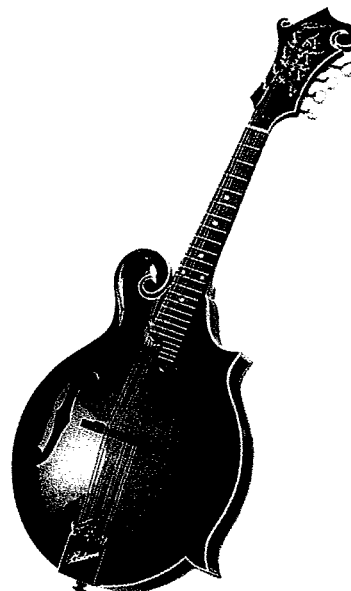
**Encore Music**  
 530 Anoka Avenue  
 Tampa, FL 33601

Sold to: Kids Time No. 1  
405 Michigan Avenue Date 8/12/--  
Tampa, FL 33619 Terms 30 days

Description	Amount
Individual lessons on Aug. 12	\$200.00
<b>Total</b>	\$200.00

When services are sold on account, the seller prepares a form showing information about the sale. A form describing the goods or services sold, the quantity, and the price is called an **invoice**. An invoice used as a source document for recording a sale on account is called a **sales invoice**. A sales invoice is also referred to as a sales ticket or a sales slip.

A sales invoice is prepared in duplicate. The original copy is given to the customer. The copy is used as the source document for the sale on account transaction. (CONCEPT: Objective Evidence) Sales invoices are numbered in sequence.



## OTHER SOURCE DOCUMENTS


No. 1  
 Date August 1, 20--  
 From Barbara Treviño  
 For Investment

\$	10,000	00
----	--------	----

Receipt No. 1  
August 1, 20--  
 Rec'd from Barbara Treviño  
 For Investment  
Ten thousand and no/100 Dollars

Amount \$ 

10,000	00
--------	----


**Encore Music**  
 530 Anoka Avenue  
 Tampa, FL 33601

Barbara Treviño  
 Received By

### Receipts

A business form giving written acknowledgement for cash received is called a **receipt**. When cash is received from sources other than sales, Encore Music prepares a

receipt. The receipts are prenumbered to help account for all of the receipts. A receipt is the source document for cash received from transactions other than sales. (CONCEPT: *Objective Evidence*)

<b>MEMORANDUM</b>		 <b>Encore Music</b> 530 Anoka Avenue Tampa, FL 33601	No. 1
<p><i>Bought supplies on account from          Ling Music Supplies, \$2,720.00</i></p>			
Signed: <u>Barbara Treviño</u>		Date: <u>August 7, 20--</u>	

### Memorandums

A form on which a brief message is written describing a transaction is called a **memorandum**. When no other source document is prepared for a transaction, or when an additional explanation is needed about a transaction, Encore Music prepares a memorandum. (CONCEPT: *Objective Evidence*) Encore Music's memorandums are prenumbered to help account for all of the memorandums. A brief note is written on the memorandum to describe the transaction.

### Calculator Tapes

Encore Music collects cash at the time services are rendered to customers. At the end of each day, Encore Music uses a printing electronic

calculator to total the amount of cash received from sales for that day. By totaling all the individual sales, a single source document is produced for the total sales of the day. Thus, time and space are saved by recording only one entry for all of a day's sales. The calculator tape is the source document for daily sales. (CONCEPT: *Objective Evidence*) A calculator tape used as a source document is shown.

	0.00 *
Aug 12, 20--	150.00 +
T12	65.00 +
	110.00 +
	325.00 *

Encore Music dates and numbers each calculator tape. For example, in the illustration, the number, T12, indicates that the tape is for the twelfth day of the month.

# RECEIVED CASH FROM OWNER AS AN INVESTMENT

**GENERAL JOURNAL** PAGE 1

	DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT	
1	20-- Aug. 1	Cash	R1		10 000 00		1
2		Barbara Treviño, Capital				10 000 00	2

Information for each transaction recorded in a journal is known as an entry. An entry consists of four parts: (1) date, (2) debit, (3) credit, and (4) source document. Before a transaction is recorded in a journal, the transaction is analyzed into its debit and credit parts.

**August 1. Received cash from owner as an investment, \$10,000.00. Receipt No. 1.**

Cash	
10,000.00	
Barbara Treviño, Capital	
	10,000.00

The source document for this transaction is Receipt No. 1. (*CONCEPT: Objective Evidence*) The analysis of this transaction is shown in the T accounts.

The asset account, Cash, is increased by a debit, \$10,000.00. The owner's capital account, Barbara Treviño, Capital, is increased by a credit, \$10,000.00.

**FYI**

Dollars and cents signs and decimal points are not used when writing amounts on ruled accounting paper. Sometimes a color tint or a heavy vertical rule is used on printed accounting paper to separate the dollars and cents columns.

## STEPS Journalizing cash received from owner as an investment

- 1. Date.** Write the date, 20--, Aug. 1, in the Date column. This entry is the first one on this journal page. Therefore, the year and month are both written for this entry. Neither the year nor the month are written again on the same page.
- 2. Debit.** Write the title of the account debited, *Cash*, in the Account Title column. Write the debit amount, \$10,000.00, in the Debit column.
- 3. Credit.** On the next line, indented about 1 centimeter, write the title of the account credited, *Barbara Treviño, Capital*, in the Account Title column. This account title is indented to indicate that this account is credited. Write the credit amount, \$10,000.00, in the Credit column.
- 4. Source document.** On the first line of the entry, write the source document number, *R1*, in the Doc. No. column. The source document number, *R1*, indicates that this is Receipt No. 1. (The source document number is a cross reference from the journal to the source document. If more details are needed about this transaction, a person can refer to Receipt No. 1.)

Debits must equal credits for each entry in a general journal. After the entry is journalized, the equality of debits and credits is verified. For this entry, the total debits, \$10,000.00, equal the total credits, \$10,000.00.

**PAID CASH FOR SUPPLIES**

The diagram illustrates the flow of information from a source document to a general journal and then to a ledger account. It features a 'Source Document' (PAGE 1) with fields for 'Date', 'Debit', and 'Credit'. Arrows indicate the flow of data to a 'GENERAL JOURNAL' table and then to a 'Ledger' table. The 'GENERAL JOURNAL' table has columns for 'DATE', 'ACCOUNT TITLE', 'DOC. NO.', 'POST. REF.', 'DEBIT', and 'CREDIT'. The 'Ledger' table has columns for 'DATE', 'ACCOUNT TITLE', and 'BALANCE'. The flow is as follows: 1. 'Date' from Source Document to GENERAL JOURNAL DATE. 2. 'Debit' from Source Document to GENERAL JOURNAL DEBIT. 3. 'Credit' from Source Document to GENERAL JOURNAL CREDIT. 4. 'Debit' from GENERAL JOURNAL DEBIT to Ledger DEBIT. 5. 'Credit' from GENERAL JOURNAL CREDIT to Ledger CREDIT. The ledger shows a balance of 1577.00 for 'Supplies' and 1577.00 for 'Cash'.

DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
3	Supplies	C1		1577.00	
4	Cash				1577.00

**August 3. Paid cash for supplies, \$1,577.00.  
Check No. 1.**

Supplies	
1,577.00	
Cash	
	1,577.00

The source document for this transaction is Check No. 1. (*CONCEPT: Objective Evidence*) The analysis of this transaction is shown in the T accounts.

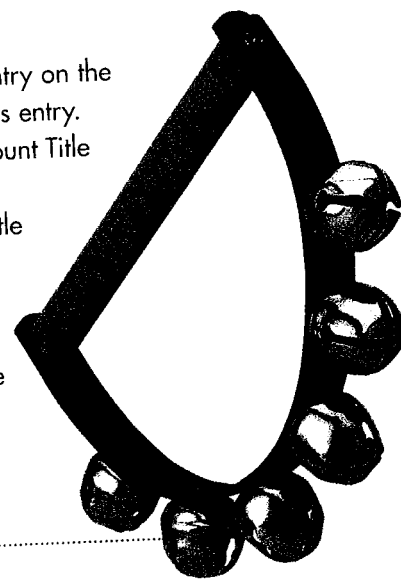
The asset account, Supplies, is increased by a debit, \$1,577.00. The asset account, Cash, is decreased by a credit, \$1,577.00.

*If you draw T accounts for analyzing transactions, it will make journalizing easier.*

## Journalizing cash paid for supplies

- 1. Date.** Write the date, 3, in the Date column. This is not the first entry on the journal page. Therefore, the year and month are not written for this entry.
- 2. Debit.** Write the title of the account debited, *Supplies*, in the Account Title column. Write the debit amount, \$1,577.00, in the Debit column.
- 3. Credit.** On the next line, indented about 1 centimeter, write the title of the account credited, *Cash*, in the Account Title column. Write the credit amount, \$1,577.00, in the Credit column.
- 4. Source document.** On the first line on this entry, write the source document number, C1, in the Doc. No. column. The source document number, C1, indicates that this is Check No. 1.

For this entry, the total debits, \$1,577.00, equal the total credits, \$1,577.00.



# REMEMBER

**R E M E M B E R**

If you misspell words in your written communications, people may mistrust the quality of your accounting skills. Note that in the word receipt the "e" comes before the "i" and there is a silent "p" before the "i" at the end of the word.

## TERMS REVIEW

journal	double-entry	invoice
journalizing	accounting	sales invoice
entry	source	receipt
general	document	memorandum
journal	check	

## AUDIT YOUR UNDERSTANDING

1. In what order are transactions recorded in a journal?
2. Why are source documents important?
3. List the four parts of a journal entry.

## WORK TOGETHER

### Journalizing entries into a general journal

A journal is given in the *Working Papers*. Your instructor will guide you through the following example.

Ruth Muldoon owns Muldoon Copy Center, which uses the following accounts:

Cash	Prepaid Insurance	Ruth Muldoon, Drawing	Rent Expense
Accts. Rec.—Lester Dodge	Accts. Pay.—Ron's Supplies	Sales	Utilities Expense
Supplies	Ruth Muldoon, Capital	Miscellaneous Expense	

**Transactions:** Apr. 1. Received cash from owner as an investment, \$7,000.00. R1.  
2. Paid cash for supplies, \$425.00. C1.

4. Journalize each transaction completed during April of the current year. Use page 1 of the journal. Source documents are abbreviated as follows: check, C; memorandum, M; receipt, R; sales invoice, S; calculator tape, T. Save your work to complete Work Together on page 75.

## ON YOUR OWN

### Journalizing entries into a general journal

A journal is given in the *Working Papers*. Work this problem independently.

Gale Klein owns Klein's Service Center, which uses the following accounts:

Cash	Prepaid Insurance	Gale Klein, Drawing	Miscellaneous Expense
Accts. Rec.—Connie Vaughn	Accts. Pay.—Osamu Supply Co.	Sales	Rent Expense
Supplies	Gale Klein, Capital	Advertising Expense	

**Transactions:** June 2. Received cash from owner as an investment, \$1,500.00. R1.  
3. Paid cash for supplies, \$35.00. C1.

5. Journalize each transaction completed during June of the current year. Use page 1 of the journal. Source documents are abbreviated as follows: check, C; memorandum, M; receipt, R; sales invoice, S; calculator tape, T. Save your work to complete On Your Own on page 75.



# 4-2 Journalizing Buying Insurance, Buying on Account, and Paying on Account

## PAID CASH FOR INSURANCE

Source Document PAGE 1

GENERAL JOURNAL

DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
4	Prepaid Insurance	C2		1200.00	
	Cash				1200.00

1 Date 2 Debit 3 Credit 4 Source Document

August 4. Paid cash for insurance, \$1,200.00.  
Check No. 2.

Prepaid Insurance	
1,200.00	

Cash	
	1,200.00

The source document for this transaction is Check No. 2. (CONCEPT: Objective Evidence) The analysis of this transaction is shown in the T accounts.

The asset account, Prepaid Insurance, is increased by a debit, \$1,200.00. The asset account, Cash, is decreased by a credit, \$1,200.00.

**S**  
**T**  
**E**  
**P**  
**S**

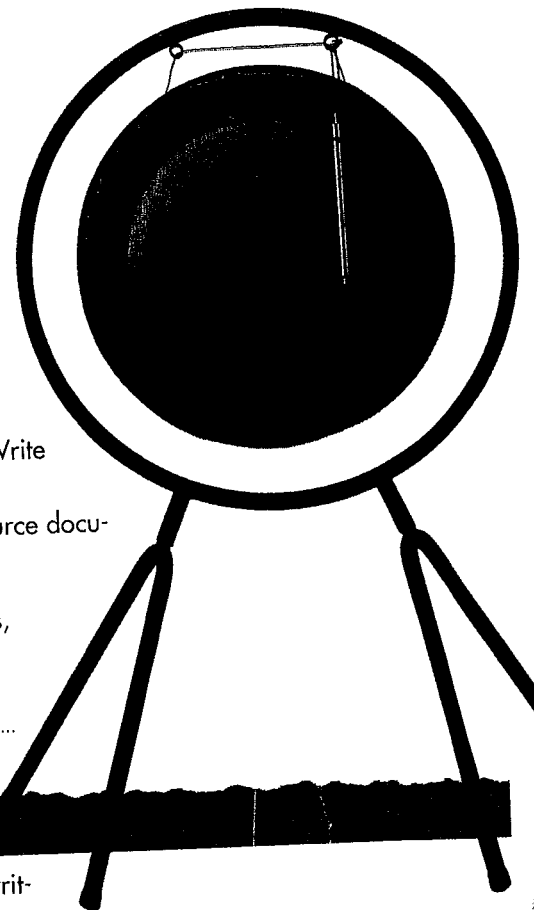
### Journalizing cash paid for insurance

- 1. Date.** Write the date, 4, in the Date column.
- 2. Debit.** Write the title of the account debited, *Prepaid Insurance*, in the Account Title column. Write the debit amount, \$1,200.00, in the Debit column.
- 3. Credit.** On the next line, indented about 1 centimeter, write the title of the account credited, *Cash*, in the Account Title column. Write the credit amount, \$1,200.00, in the Credit column.
- 4. Source document.** On the first line of this entry, write the source document number, C2, in the Doc. No. column.

For this entry, the total debits, \$1,200.00, equal the total credits, \$1,200.00.

## REMEMBER

All amounts recorded in the general journal must have an account title written in the Account Title column.



# BOUGHT SUPPLIES ON ACCOUNT

**GENERAL JOURNAL**  
PAGE 1

DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
7	Supplies	M1		2,720.00	
	Accts. Pay.—Ling Music Supplies				2,720.00

1 Date      2 Debit      3 Credit      4 Source Document

August 7. Bought supplies on account from Ling Music Supplies, \$2,720.00. Memorandum No. 1.

Supplies	
2,720.00	
Accts. Pay.—Ling Music Supplies	
	2,720.00

action immediately. Therefore, a memorandum is prepared that shows supplies received on account.

The source document for this transaction is Memorandum No. 1. (CONCEPT: *Objective Evidence*) The analysis of this transaction is shown in the T accounts.

The asset account, Supplies, is increased by a debit, \$2,720.00. The liability account, Accounts Payable—Ling Music Supplies, is increased by a credit, \$2,720.00

Encore Music ordered these supplies by telephone. Encore Music wishes to record this trans-

## STEPS Journalizing supplies bought on account

- 1. Date.** Write the date, 7, in the Date column.
- 2. Debit.** Write the title of the account debited, *Supplies*, in the Account Title column. Write the debit amount, \$2,720.00, in the Debit column.
- 3. Credit.** On the next line, indented about 1 centimeter, write the title of the account credited, *Accounts Payable—Ling Music Supplies*, in the Account Title column. Write the credit amount, \$2,720.00, in the Credit column.
- 4. Source document.** On the first line of this entry, write the source document number, M1, in the Doc. No. column.

For this entry, the total debits, \$2,720.00, equal the total credits, \$2,720.00.

## FYI

Of all service businesses in the United States, only 4 percent employ 50 or more people and 80 percent have fewer than 10 employees.

## REMEMBER

When recording transactions in a general journal, the account title that is credited is normally indented.

## PAID CASH ON ACCOUNT

**Debit GENERAL JOURNAL**

Source Document  
PAGE 1

DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
11	Accts. Pay.—Ling Music Supplies	C3		1360.00	
	Cash				1360.00

**August 11. Paid cash on account to Ling Music Supplies, \$1,360.00. Check No. 3.**

Accts. Pay.—Ling Music Supplies	
1,360.00	
Cash	
	1,360.00

The source document for this transaction is Check No. 3. (*CONCEPT: Objective Evidence*) The analysis of this transaction is shown in the T accounts.

The liability account, Accounts Payable—Ling Music Supplies, is decreased by a debit, \$1,360.00. The asset account, Cash, is decreased by a credit, \$1,360.00.

## ACCOUNTING AT WORK

### MARY WITHERSPOON

**I**n high school, Mary M. Witherspoon considered pursuing a degree in accounting. Her career choice was confirmed by ACCUMATION, a career education program for high school students sponsored by the Dallas Chapter of the Texas Society of CPAs. Students participate in this week-long summer program, which includes visits to an international accounting firm and the chance to sit in on university accounting classes.

Mary graduated with a BBA in Accounting and works for Oryx Energy Company, a large independent producer of oil and gas in Dallas. Currently in gas balancing accounting, she reconciles records of jointly owned properties to ensure Oryx receives their entitled gas volumes. Working in the corporate environment has allowed Mary to

change job responsibilities over her career to gain additional experience.

Mary believes that exceptional people skills coupled with technical experience is the formula for business success. People skills include written and verbal communication, respecting diversity, and the ability to work in teams.

Mary also serves as a district vice-president of the American Business Women's Association (ABWA). ABWA promotes the advancement of women in business by sponsoring continuing education, providing leadership training, and offering encouragement.

"High school students can contact their state or local society of certified public accountants for accounting career information," says Mary. "We CPAs support programs to encourage student interest in our field."

## AUDIT YOUR UNDERSTANDING

1. When cash is paid for insurance, which account is listed on the first line of the entry?
2. When supplies are bought on account, which account is listed on the first line of the entry?
3. When supplies are bought on account, which account is listed on the second line of the entry?
4. When cash is paid on account, which account is listed on the second line of the entry?

## WORK TOGETHER

### Journalizing entries into a general journal

Use the journal that you started for Work Together on page 71. Your instructor will guide you through the following example.

Ruth Muldoon owns Muldoon Copy Center, which uses the following accounts:

Cash	Prepaid Insurance	Ruth Muldoon, Drawing	Rent Expense
Accts. Rec.—Lester Dodge	Accts. Pay.—Ron's Supplies	Sales	Utilities Expense
Supplies	Ruth Muldoon, Capital	Miscellaneous Expense	

- Transactions:** Apr. 5. Bought supplies on account from Ron's Supplies, \$300.00. M1.  
 7. Paid cash for insurance, \$600.00. C2.  
 9. Paid cash on account to Ron's Supplies, \$300.00. C3.

5. Journalize the transactions continuing on the next blank line of page 1 of the journal. Save your work to complete Work Together on page 81.

## ON YOUR OWN

### Journalizing entries into a general journal

Use the journal that you started for On Your Own on page 71. Work this problem independently.

Gale Klein owns Klein's Service Center, which uses the following accounts:

Cash	Prepaid Insurance	Gale Klein, Drawing	Miscellaneous Expense
Accts. Rec.—Connie Vaughn	Accts. Pay.—Osamu Supply Co.	Sales	Rent Expense
Supplies	Gale Klein, Capital	Advertising Expense	

- Transactions:** June 5. Paid cash for insurance, \$100.00. C2.  
 9. Bought supplies on account from Osamu Supply Co., \$155.00. M1.  
 10. Paid cash on account to Osamu Supply Co., \$155.00. C3.

6. Journalize the transactions continuing on the next blank line of page 1 of the journal. Save your work to complete On Your Own on page 81.

# 4-3 Journalizing Transactions That Affect Owner Equity and Receiving Cash on Account

## RECEIVED CASH FROM SALES

Diagram illustrating the journal entry for receiving cash from sales, showing the flow from the source document to the general journal and then to the T-accounts.

1 Date		2 Debit		4 Source Document	
GENERAL JOURNAL				PAGE 1	
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
11 12	Cash	T12		325.00	
12	Sales				325.00

3 Credit

August 12. Received cash from sales, \$325.00. Tape No. 12.

Cash	
325.00	
Sales	
	325.00

The source document for this transaction is Calculator Tape No. 12. (CONCEPT: Objective Evidence) The analysis of this transaction is shown in the T accounts.

The asset account, Cash, is increased by a debit, \$325.00. The revenue account, Sales, is increased by a credit, \$325.00.

The reason that Sales is increased by a credit is discussed in the previous chapter. The owner's capital account has a normal credit balance. Increases in the owner's capital account are shown as credits.

Because revenue increases owner's equity, increases in revenue are recorded as credits. A revenue account, therefore, has a normal credit balance.

### Journalizing cash received from sales

- 1. Date.** Write the date, 12, in the Date column.
- 2. Debit.** Write the title of the account debited, Cash, in the Account Title column. Write the debit amount, \$325.00, in the Debit column.
- 3. Credit.** On the next line, indented about 1 centimeter, write the title of the account credited, Sales, in the Account Title column. Write the credit amount, \$325.00, in the Credit column.
- 4. Source document.** On the first line of this entry, write the source document number, T12, in the Doc. No. column.

For this entry, the total debits, \$325.00, equal the total credits, \$325.00.

## REMEMBER

Don't forget to record the source document in the Doc. No. column of the general journal.

## SOLD SERVICES ON ACCOUNT

**Debit GENERAL JOURNAL**

Source Document  
PAGE 1

DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
12	Accounts Rec.—Kids Time	S1		200.00	
	Sales				200.00

**August 12. Sold services on account to Kids Time, \$200.00. Sales Invoice No. 1.**

Accts. Rec.—Kids Time	
200.00	
Sales	200.00

The source document for this transaction is Sales Invoice No. 1. (CONCEPT: *Objective Evidence*) The analysis of this transaction is shown in the T accounts.

The asset account, Accounts Receivable—Kids Time, is increased by a debit, \$200.00. The revenue account, Sales, is increased by a credit, \$200.00.

**S**  
**T**  
**E**  
**P**  
**S**

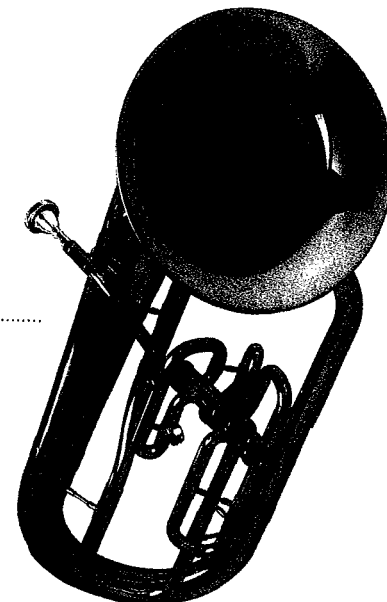
### Journalizing services sold on account

- 1. Date.** Write the date, 12, in the Date column.
- 2. Debit.** Write the title of the account debited, Accounts Receivable—Kids Time, in the Account Title column. Write the debit amount, \$200.00, in the Debit column.
- 3. Credit.** On the next line, indented about 1 centimeter, write the title of the account credited, Sales, in the Account Title column. Write the credit amount, \$200.00, in the Credit column.
- 4. Source document.** Write the source document number, S1, in the Doc. No. column.

For this entry, the total debits, \$200.00, equal the total credits, \$200.00.

**F**  
**Y**  
**I**

Accounting is not just for accountants. For example, a performing artist earns revenue from providing a service. Financial decisions must be made such as the cost of doing a performance, the percentage of revenue paid to a manager, travel expenses, and the cost of rehearsal space.



## REMEMBER

In double-entry accounting, each transaction affects at least two accounts. At least one account will be debited and at least one account will be credited.

## PAID CASH FOR AN EXPENSE

1 Date		2 Debit		4 Source Document	
		GENERAL JOURNAL		PAGE 1	
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
12	Rent Expense	C4		250.00	
	Cash				250.00
12	Utilities Expense	C5		45.00	
	Cash				45.00
			3 Credit		

August 12. Paid cash for rent, \$250.00.  
Check No. 4.

Rent Expense	
250.00	
Cash	
	250.00

The source document for this transaction is Check No. 4. (CONCEPT: Objective Evidence) The

analysis of this transaction is shown in the T accounts.

The expense account, Rent Expense, is increased by a debit, \$250.00. The asset account, Cash, is decreased by a credit.

The reason that Rent Expense is increased by a debit is discussed in the previous chapter. The owner's capital account has a normal credit balance. Decreases in the owner's capital account are shown as debits.

Because expenses decrease owner's equity, increases in expenses are recorded as debits. An expense account, therefore, has a normal debit balance.

### STEPS Journalizing cash paid for an expense

- 1. Date.** Write the date, 12, in the Date column.
- 2. Debit.** Write the title of the account debited, *Rent Expense*, in the Account Title column. Write the debit amount, \$250.00, in the Debit column.
- 3. Credit.** On the next line, indented about 1 centimeter, write the title of the account credited, *Cash*, in the Account Title column. Write the credit amount, \$250.00, in the Credit column.
- 4. Source document.** Write the source document number, C4, in the Doc. No. column.

For this entry, the total debits, \$250.00, equal the total credits, \$250.00. Whenever cash is paid for an expense, the journal entry is similar to the entry discussed above. Therefore, the journal entry to record paying cash for utilities is also illustrated.

### FYI

Source documents can be critically important in tracking down errors. Businesses file their source documents so they can be referred to if it is necessary to verify information entered into their journals.

## RECEIVED CASH ON ACCOUNT

1 Date		2 Debit		4 Source Document		3 Credit	
GENERAL JOURNAL				PAGE 1			
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT		CREDIT	
19   12	Cash	R2		100.00			19
20	Accounts Rec.—Kids Time					100.00	20

August 12. Received cash on account from Kids Time, \$100.00. Receipt No. 2.

Cash	
100.00	
Accts. Rec.—Kids Time	
	100.00

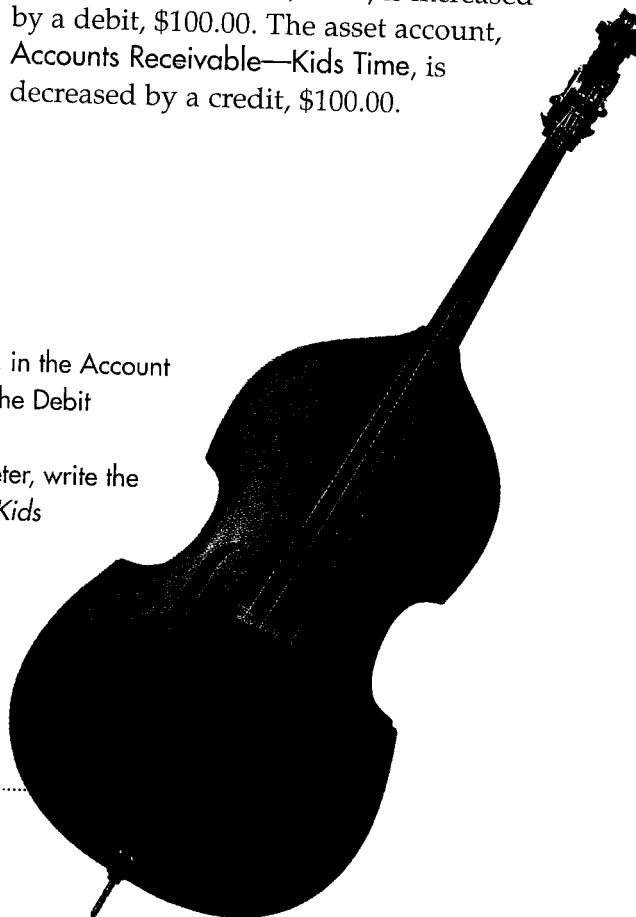
The source document for this transaction is Receipt No. 2. (CONCEPT: Objective Evidence) The analysis of this transaction is shown in the T accounts.

The asset account, Cash, is increased by a debit, \$100.00. The asset account, Accounts Receivable—Kids Time, is decreased by a credit, \$100.00.

### STEPS Journalizing cash received on account

- 1. Date.** Write the date, 12, in the Date column.
- 2. Debit.** Write the title of the account debited, *Cash*, in the Account Title column. Write the debit amount, \$100.00, in the Debit column.
- 3. Credit.** On the next line, indented about 1 centimeter, write the title of the account credited, *Accounts Receivable—Kids Time*, in the Account Title column. Write the credit amount, \$100.00, in the Credit column.
- 4. Source document.** Write the source document number, R2, in the Doc. No. column.

For this entry, the total debits, \$100.00, equal the total credits, \$100.00.



## REMEMBER

Increases in expenses and in withdrawals decrease owner's equity. Decreases in owner's equity are recorded as debits. Therefore, increases in expenses and in withdrawals are recorded as debits.



## PAID CASH TO OWNER FOR PERSONAL USE

1 Date		2 Debit		4 Source Document		3 Credit	
GENERAL JOURNAL		PAGE 1					
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
12	Barbara Treviño, Drawing	C6		100.00			21
	Cash				100.00		22

August 12. Paid cash to owner for personal use, \$100.00. Check No. 6.

Barbara Treviño, Drawing	
100.00	
Cash	
	100.00

The source document for this transaction is Check No. 6. (CONCEPT: Objective Evidence) The analysis of this transaction is shown in the T accounts.

The reason that Barbara Treviño, Drawing is increased by a debit is discussed in the previous chapter. Decreases in the owner's capital account are shown as debits. Because withdrawals decrease owner's equity, increases in withdrawals are recorded as debits. A withdrawal account, therefore, has a normal debit balance.



### LEGAL ISSUES IN ACCOUNTING

#### FORMING AND DISSOLVING A PROPRIETORSHIP

proprietorship is a business owned and controlled by one person. The advantages of a proprietorship include:

- Ease of formation.
- Total control by the owner.
- Profits that are not shared.

However, there are some disadvantages of organizing a proprietorship:

- Limited resources. The owner is the only person who can invest cash and other assets in the business.
- Unlimited liability. The owner is totally responsible for the liabilities of the business. Personal assets, such as a car, can be claimed by creditors to pay the business's liabilities.

- Limited expertise. Limited time, energy, and experience can be put into the business by the owner.
- Limited life. A proprietorship must be dissolved when the owner dies or decides to stop doing business.

The owner is required to follow the laws of both the federal government and the state and city in which the business is formed. Most cities and states have few, if any, legal procedures to follow. Once any legal requirements are met, the proprietorship can begin business.

Should the owner decide to dissolve the proprietorship, he or she merely needs to stop doing business. Noncash assets can be sold, with the cash used to pay any creditors.

## **A**UDIT YOUR UNDERSTANDING

1. When cash is received from sales, which account is listed on the first line of the entry?
2. When cash is received from sales, which account is listed on the second line of the entry?
3. When services are sold on account, which account is listed on the second line of the entry?
4. When cash is paid for any reason, what abbreviation is used for the source document?
5. When cash is received on account, what abbreviation is used for the source document?

## **W**ORK TOGETHER

### **Journalizing transactions that affect owner's equity into a general journal**

Use the chart of accounts and journal from Work Together on page 75. Your instructor will guide you through the following example.

**Transactions:** Apr. 12. Paid cash for rent, \$950.00. C4.  
13. Received cash from sales, \$2,200.00. T13.  
14. Sold services on account to Lester Dodge, \$625.00. S1.  
19. Paid cash for electric bill, \$157.00. C5.  
20. Received cash on account from Lester Dodge, \$300.00. R2.  
21. Paid cash to owner for personal use, \$1,400.00. C6.

6. Journalize the transactions continuing on the next blank line of page 1 of the journal. Save your work to complete Work Together on page 85.

## **O**N YOUR OWN

### **Journalizing transactions that affect owner's equity into a general journal**

Use the chart of accounts and journal from On Your Own on page 75. Work this problem independently.

**Transactions:** June 11. Paid cash for rent, \$200.00. C4.  
12. Sold services on account to Connie Vaughn, \$200.00. S1.  
16. Received cash from sales, \$1,050.00. T16.  
17. Paid cash for postage (Miscellaneous Expense), \$32.00. C5.  
19. Received cash on account from Connie Vaughn, \$100.00. R2.  
20. Paid cash to owner for personal use, \$250.00. C6.

7. Journalize the transactions continuing on the next blank line of page 1 of the journal. Save your work to complete On Your Own on page 85.

# 4-4

# Starting a New Journal Page

## A COMPLETED JOURNAL PAGE

GENERAL JOURNAL						PAGE 1
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT	
1 Aug. 1	Cash	R1		1000000		1
2	Barbara Treviño, Capital				1000000	2
3	3 Supplies	C1		157700		3
4	Cash				157700	4
31	18 Advertising Expense	C9		20000		31
32	Cash				20000	32
33	20 Supplies	M2		2000		33
34	Accts. Pay.—Sullivan Office Supplies				2000	34
35						35

A general journal page is complete when there is insufficient space to record any more entries. A partial view of Encore Music's completed page 1 of the general journal is shown.

Encore Music has one blank line remaining at the bottom of page 1. However, each journal entry requires at least two lines. If a journal entry is split between two different pages, the equality of debits and credits for the entry is not as easily verified. Also, to a person examining a single journal page, a split entry will appear incorrect. Therefore, a journal entry should not be split and journalized on two different pages. If there is only one blank line remaining on a journal page, a new page is started.



## SMALL BUSINESS SPOTLIGHT

Successful small business owners typically have the following characteristics: confidence to make decisions, determination to keep trying during hard times for the business, willingness to take risks, creativity to surpass the competition, and an inner need to achieve.

## STARTING A NEW GENERAL JOURNAL PAGE

GENERAL JOURNAL						PAGE 2
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT	
1						1
2						2
3						3
4						4

After one page of a general journal is filled, a new journal page is started. A new page is

started by writing the page number in the space provided in the journal heading.

### FOREIGN CURRENCY

As our world becomes smaller and global trade increases, U.S. businesses become more involved in transactions with foreign businesses. These transactions can be stated in terms of U.S. dollars or in the currency of the other country. If the transaction involves foreign currency, a U.S. business must convert the foreign currency into U.S. dollars before the transaction can be recorded. (**CONCEPT: Unit of Measurement**)

The value of foreign currency may change daily. In the United States, the *exchange rate* is the value of foreign currency in relation to the U.S. dollar. Current exchange rates can be found

in many daily newspapers, on-line services, or banks.

The exchange rate is stated in terms of one unit of foreign currency. Using Germany as an example, presume that one German *mark* is worth 0.5789 U.S. dollars (or about 58 U.S. cents). This rate would be used when exchanging German marks for U.S. dollars.

A *conversion formula* can be used to find out how many foreign currency units can be purchased with one U.S. dollar. The formula is:

$$\begin{aligned} 1 / \text{exchange rate} &= \text{foreign} \\ &\text{currency per U.S. dollar} \\ 1 \text{ dollar} / 0.5789 &= 1.7272 \\ &\text{marks per dollar} \end{aligned}$$



# STANDARD ACCOUNTING PRACTICES

## GENERAL JOURNAL

PAGE 2

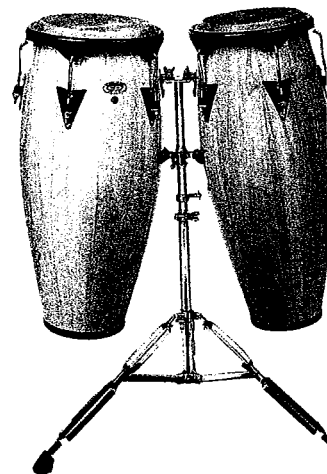
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
28	Cash	T28		3500.00	
	Sales				3500.00
29	Rent Expense	C22		5.00	
	<del>Cash</del>				5.00
29	Repair Expense	C21		50.00	
	Cash				50.00
29	Supplies	C22		10.00	
	Cash				10.00
30	Miscellaneous Expense	C23		100.00	
	Cash				100.00
30	Barbara Treviño, Drawing	C24		500.00	
	Cash				500.00

In completing accounting work, Encore Music follows standard accounting practices. These practices include procedures for error corrections, abbreviating words, writing dollar and cents signs, and rulings.

- Errors are corrected in a way that does not cause doubts about what the correct information is. If an error is recorded, cancel the error by neatly drawing a line through the incorrect item. Write the correct item immediately above the canceled item.
- Sometimes an entire entry is incorrect and is discovered before the next entry is journalized. Draw neat lines through all parts of the incorrect entry. Journalize the entry correctly on the next blank lines.
- Sometimes several correct entries are recorded after an incorrect entry is made. The next blank lines are several entries later. Draw neat lines through all incorrect parts of the entry. Record the correct items on the same lines as the incorrect items, directly above the canceled parts.
- Words in accounting records are written in full when space permits. Words may be

abbreviated only when space is limited. All items are written legibly.

- Dollars and cents signs and decimal points are not used when writing amounts on ruled accounting paper. Sometimes a color tint or a heavy vertical rule is used on printed accounting paper to separate the dollars and cents columns.
- Two zeros are written in the cents column when an amount is in even dollars, such as \$500.00. If the cents column is left blank, doubts may arise later about the correct amount.
- Neatness is very important in accounting records so that there is never any doubt about what information has been recorded. A ruler is used to draw lines.



## **A**UDIT YOUR UNDERSTANDING

1. When is a general journal page complete?
2. If an entire entry is incorrect and is discovered before the next entry is journalized, how should the incorrect entry be corrected?
3. If several correct entries are recorded after an incorrect entry is made, how should the incorrect entry be corrected?

## **W**ORK TOGETHER

### **Journalizing transactions and starting a new general journal page**

Use the journal from Work Together on page 81. Your instructor will guide you through the following examples.

**Transactions:** Apr. 22. Paid cash for water bill (Utilities Expense), \$150.00. C7.  
23. Sold services on account to Lester Dodge, \$317.00. S2.  
26. Received cash from sales, \$1,560.00. T26.  
27. Paid cash to owner for personal use, \$750.00. C8.  
27. Paid cash for supplies, \$24.00. C9.  
27. Paid cash for postage (Miscellaneous Expense), \$35.00. C10.  
29. Received cash on account from Lester Dodge, \$75.00. R3.  
30. Received cash from sales, \$743.00. T30.

4. Journalize the transactions for April 22 through 27.
5. Use page 2 of the journal to journalize the remaining transactions for April.

## **O**N YOUR OWN

### **Journalizing transactions and starting a new general journal page**

Use the journal from On Your Own on page 81. Work these problems independently.

**Transactions:** June 23. Sold services on account to Connie Vaughn, \$135.00. S2.  
24. Paid cash for advertising, \$48.00. C7.  
25. Received cash from sales, \$850.00. T25.  
26. Paid cash for delivery charges (Miscellaneous Expense), \$17.00. C8.  
26. Received cash on account from Connie Vaughn, \$100.00. R3.  
26. Paid cash for postage (Miscellaneous Expense), \$15.00. C9.  
27. Paid cash for supplies, \$21.00. C10.  
30. Received cash from sales, \$235.00. T30.

6. Journalize the transactions for June 23 through 26.
7. Use page 2 of the journal to journalize the remaining transactions for June.

After completing this chapter, you can

1. Define important accounting terms related to journalizing transactions.
2. Identify accounting concepts and practices related to journalizing transactions.
3. Record in a general journal transactions to set up a business.
4. Record in a general journal transactions to buy insurance for cash and supplies on account.
5. Record in a general journal transactions that affect owner's equity and receiving cash on account.
6. Start a new journal page.

## EXPLORE ACCOUNTING

### PRENUMBERED DOCUMENTS

As one way to control the operations of the business, a company often will use prenumbered documents. Such a document is one that has the form number printed on it in advance. The most common example in everyday life is the personal check.

Businesses use several prenumbered documents. Examples include business checks, sales invoices, purchase orders, receipts, and memorandums.

The use of prenumbered documents allows a simple way to ensure that all documents are recorded. For example, when a business records the checks written during a period

of time, all check numbers should be accounted for in numeric order. The person recording the checks must watch to see that no numbers are skipped. In this way, the business is more confident that all checks are recorded.

By using several types of prenumbered documents, the business helps ensure that all transactions are properly recorded.

Another way a business tries to control operations is through the use of batch totals. When many (sometimes hundreds) of documents are being recorded, the total amount can be used to help

ensure that all documents are recorded.

For example, when sales invoices are recorded, the total of all the invoices is calculated prior to the invoices being recorded. Once all invoices are recorded, another total can be calculated. If the two totals are equal, it can be assumed that all invoices have been recorded. If the totals *do not equal*, it may indicate that a document was skipped.

**Research:** Contact a local business and ask what prenumbered documents are used there. Determine how the business uses the documents to ensure that all documents are recorded properly.

