

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.

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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 \$ <u>1,577.00</u> Date <u>August 3</u> 20 <u>--</u> To <u>Quick Clean Supplies Co.</u> For <u>Supplies</u> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td>BAL. BRO'T. FOR'D.</td> <td style="text-align: right;">0 00</td> </tr> <tr> <td>AMT. DEPOSITED</td> <td style="text-align: right;">8 71 -- 10,000 00</td> </tr> <tr> <td>SUBTOTAL</td> <td style="text-align: right;">10,000 00</td> </tr> <tr> <td>OTHER:</td> <td></td> </tr> <tr> <td> </td> <td></td> </tr> <tr> <td> </td> <td></td> </tr> <tr> <td>SUBTOTAL</td> <td style="text-align: right;">10,000 00</td> </tr> <tr> <td>AMT. THIS CHECK</td> <td style="text-align: right;">1,577 00</td> </tr> <tr> <td>BAL. CAR'D. FOR'D.</td> <td style="text-align: right;">8,423 00</td> </tr> </table>	BAL. BRO'T. FOR'D.	0 00	AMT. DEPOSITED	8 71 -- 10,000 00	SUBTOTAL	10,000 00	OTHER:						SUBTOTAL	10,000 00	AMT. THIS CHECK	1,577 00	BAL. CAR'D. FOR'D.	8,423 00	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;">Encore Music</td> <td style="text-align: right;">NO. 1 63-109 631</td> </tr> <tr> <td style="font-size: x-small;">530 Anoka Avenue Tampa, FL 33601</td> <td style="text-align: right;">Date <u>August 3</u> 20 <u>--</u></td> </tr> <tr> <td>PAY TO THE ORDER OF <u>Quick Clean Supplies Co.</u></td> <td style="text-align: right;">\$ <u>1,577.00</u></td> </tr> <tr> <td colspan="2" style="text-align: center;"><u>One thousand five hundred seventy-seven and ^{no}/₁₀₀</u> DOLLARS</td> </tr> <tr> <td style="text-align: center;">Peoples national bank <small>Tampa, FL 33602</small></td> <td style="text-align: right;"><small>For Classroom Use Only</small></td> </tr> <tr> <td>FOR <u>Supplies</u></td> <td style="text-align: right;"><u>Barbara Treviño</u></td> </tr> <tr> <td colspan="2" style="text-align: center;">⑆063101098⑆ 431145211911</td> </tr> </table>	Encore Music	NO. 1 63-109 631	530 Anoka Avenue Tampa, FL 33601	Date <u>August 3</u> 20 <u>--</u>	PAY TO THE ORDER OF <u>Quick Clean Supplies Co.</u>	\$ <u>1,577.00</u>	<u>One thousand five hundred seventy-seven and ^{no}/₁₀₀</u> DOLLARS		Peoples national bank <small>Tampa, FL 33602</small>	<small>For Classroom Use Only</small>	FOR <u>Supplies</u>	<u>Barbara Treviño</u>	⑆063101098⑆ 431145211911	
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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: <u>Kids Time</u> <u>405 Michigan Avenue</u> <u>Tampa, FL 33619</u>	No. <u>1</u> Date <u>8/12/--</u> Terms <u>30 days</u>
Description	Amount	
Individual lessons on Aug. 12	\$200.00	
Total	\$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	Receipt No. 1
Date <u>August 1,</u> 20 <u>--</u>	<u>August 1,</u> 20 <u>--</u>
From <u>Barbara Treviño</u>	Rec'd from <u>Barbara Treviño</u>
For <u>Investment</u>	For <u>Investment</u>
	<u>Ten thousand and no/100</u> Dollars
\$ <u>10,000</u> <u>00</u>	Amount \$ <u>10,000</u> <u>00</u>
	Encore Music
	 530 Anoka Avenue Tampa, FL 33601
	<u>Barbara Treviño</u> 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*)

MEMORANDUM	 Encore Music 530 Anoka Avenue Tampa, FL 33601	No. 1
	<i>Bought supplies on account from Ling Music Supplies, \$2,720.00</i>	
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 *
<i>Aug 12, 20--</i>	150.00 +
<i>T12</i>	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							Source Document 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.

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.

Cash	
10,000.00	
Barbara Treviño, Capital	
	10,000.00

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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.

Journalizing cash received from owner as an investment

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- 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

1 Date		2 Debit		4 Source Document	
Date		GENERAL JOURNAL		Document PAGE 1	
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
3	Supplies	C1		1 5 7 7 0 0	
4	Cash				1 5 7 7 0 0

3 Credit

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.

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

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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

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 “t” 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

1 Date		2 Debit		4 Source Document	
		GENERAL JOURNAL		PAGE 1	
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
4	Prepaid Insurance	C2		1200.00	
	Cash				1200.00

3 Credit

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 Journalizing cash paid for insurance

STEPS

- 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

1 Date		2 Debit		4 Source Document	
Date		GENERAL JOURNAL		Document PAGE 1	
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
7	Supplies	M1		2,720.00	
8	Accts. Pay.—Ling Music Supplies				2,720.00

3 Credit

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

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

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

S Journalizing supplies bought on account

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- 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.

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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

1 Date		2 Debit		4 Source Document	
		GENERAL JOURNAL		PAGE 1	
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
9 11	Accts. Pay.—Ling Music Supplies	C3		1360.00	
10	Cash				1360.00

3 Credit

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

In 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's Equity and Receiving Cash on Account

RECEIVED CASH FROM SALES

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	

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.

S Journalizing cash received from sales

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S**

- 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

1 Date		2 Debit		4 Source Document	
12		Accounts Rec.—Kids Time		PAGE 1	
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
13 12	Accounts Rec.—Kids Time	S1		200.00	
14	Sales				200.00

3 Credit

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.

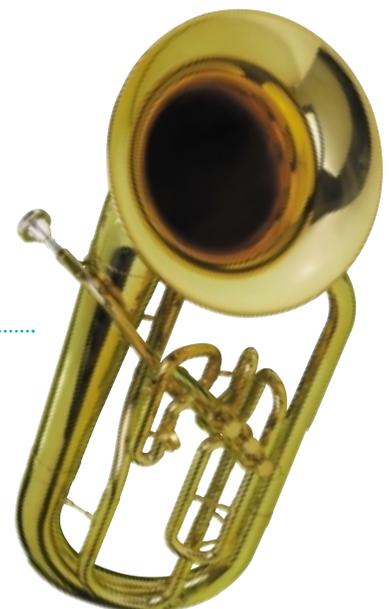
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I**

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.

STEPS 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.



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						
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT	
15	12 Rent Expense	C4		250.00		15
16	Cash				250.00	16
17	12 Utilities Expense	C5		45.00		17
18	Cash				45.00	18
19						19
20						20
21						21

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.

S Journalizing cash paid for an expense

STEPS

- 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	
GENERAL JOURNAL				PAGE 1	
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
19	12 Cash	R2		100.00	
20	Accounts Rec.—Kids Time				100.00

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.

S Journalizing cash received on account

T
E
P
S

- 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	
GENERAL JOURNAL					
PAGE 1					
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
21	12 Barbara Treviño, Drawing	C6		100.00	
22	Cash				100.00

3 Credit

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

A 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.

AUDIT 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?

WORK 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.

ON 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	²⁰⁻ 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:

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



GLOBAL
PERSPECTIVE

GENERAL JOURNAL						PAGE 2
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT	
28	Cash	T28		350000		
	Sales				35000	
29	Rent Expense	C22		500		
	Cash				500	
29	Repair Expense	C21		500		
	Cash				500	
29	Supplies	C22		1000		
	Cash				1000	
30	Miscellaneous Expense	C23		10000		
	Cash				10000	
30	Barbara Treviño, Drawing	C24		50000		
	Cash				50000	

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.



AUDIT 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?

WORK 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.

ON 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.

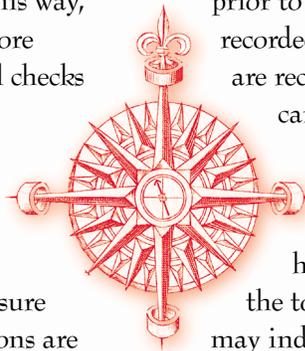
By using several types of prenumbered documents, the business helps ensure that all transactions are properly recorded.

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.



4-1**APPLICATION PROBLEM****Journalizing transactions into a general journal**

Dennis Gilbert owns a service business called D & G Company, which uses the following accounts:

Cash	Accts. Pay.—Ronken Supplies	Miscellaneous Expense
Accts. Rec.—Hetland Company	Dennis Gilbert, Capital	Rent Expense
Supplies	Dennis Gilbert, Drawing	Utilities Expense
Prepaid Insurance	Sales	

Transactions:

- Feb. 1. Received cash from owner as an investment, \$10,000.00. R1.
4. Paid cash for supplies, \$1,000.00. C1.

Instructions:

Journalize the transactions completed during February of the current year. Use page 1 of the journal given in the *Working Papers*. Source documents are abbreviated as follows: check, C; memorandum, M; receipt, R; sales invoice, S; calculator tape, T.

Save your work to complete Application Problem 4-2.

4-2**APPLICATION PROBLEM****Journalizing buying insurance, buying on account, and paying on account into a general journal**

Use the chart of accounts and general journal from Application Problem 4-1.

Transactions:

- Feb. 6. Paid cash for insurance, \$1,200.00 C2.
7. Bought supplies on account from Ronken Supplies, \$1,400.00. M1.
8. Paid cash on account to Ronken Supplies, \$700.00. C3.
12. Paid cash on account to Ronken Supplies, \$700.00. C4.

Instructions:

Journalize the transactions. Source documents use the same abbreviations as stated in Application Problem 4-1. Save your work to complete Application Problem 4-3.

4-3**APPLICATION PROBLEM****Journalizing transactions that affect owner's equity into a general journal**

Use the chart of accounts given in Application Problem 4-1 and general journal from Application Problem 4-2.

Transactions:

- Feb. 12. Paid cash for rent, \$600.00. C5.
13. Received cash from sales, \$500.00. T13.
14. Sold services on account to Hetland Company, \$450.00. S1.
15. Paid cash to owner for personal use, \$1,800.00. C6.
18. Received cash from sales, \$278.00. T18.
19. Paid cash for postage (Miscellaneous Expense), \$64.00. C7.
21. Received cash an account from Hetland Company, \$250.00. R2.

- Feb. 22. Received cash from sales, \$342.00. T22.
 22. Paid cash for heating fuel bill, \$329.00. C8.

Instructions:

Journalize the transactions. Source documents use the same abbreviations as stated in Application Problem 4-1.

Save your work to complete Application Problem 4-4.

4-4

APPLICATION PROBLEM

Journalizing transactions and starting a new page of a general journal

Use the chart of accounts given in Application Problem 4-1 and the general journal from Application Problem 4-3.

Transactions:

- Feb. 25. Received cash on account from Hetland Company, \$200.00. R3.
 25. Paid cash for a delivery (Miscellaneous Expense), \$18.00. C9.
 26. Sold services on account to Hetland Company, \$136.00. S2.
 26. Paid cash for supplies, \$44.00. C10.
 27. Paid cash for rent, \$600.00. C11.
 27. Paid cash for postage (Miscellaneous Expense), \$10.00. C12.
 28. Received cash from sales, \$1,365.00. T28.
 28. Paid cash to owner for personal use, \$1,000.00. C13.

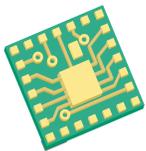
Instructions:

1. Journalize the transactions for February 25. Source documents use the same abbreviations as stated in Application Problem 4-1.
2. Use page 2 of the journal to journalize the rest of the transactions for February.

4-5

APPLICATION PROBLEM

Journalizing transactions



Nick Bonnocotti owns a service business called The Lawn Doctor, which uses the following accounts:

- | | |
|------------------------------|--------------------------|
| Cash | Nick Bonnocotti, Capital |
| Accts. Rec.—Leon Quarve | Nick Bonnocotti, Drawing |
| Supplies | Sales |
| Prepaid Insurance | Advertising Expense |
| Accts. Pay.—Western Supplies | Utilities Expense |

Transactions:

- Apr. 1. Nick Bonnocotti invested \$2,000.00 of his own money in the business. Receipt No. 1.
 3. Used business cash to purchase supplies costing \$37.00. Wrote Check No. 1.
 4. Wrote Check No. 2 for insurance, \$120.00.
 5. Purchased supplies for \$50.00 over the phone from Western Supplies, promising to send the check next week. Memorandum No. 1.
 11. Sent Check No. 3 to Western Supplies, \$50.00.
 12. Sent a check for the electricity bill, \$65.00. Check No. 4.
 15. Wrote a \$850.00 check to Mr. Bonnocotti for personal use. Used Check No. 5.

- Apr. 16. Sold services for \$259.00 to Leon Quarve, who agreed to pay for them within 10 days. Sales Invoice No. 1.
17. Recorded cash sales of \$1,668.00.
18. Paid \$50.00 for advertising. Wrote Check No. 6.
25. Received \$259.00 from Leon Quarve for the services we performed last week. Wrote Receipt No. 2.

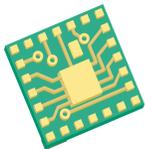
Instructions:

Journalize the transactions completed during April of the current year. Use page 1 of the journal given in the *Working Papers*. Remember to enter source document numbers as necessary.

4-6

MASTERY PROBLEM
Journalizing transactions

Jill Statsholt owns a service business called Jill's Car Wash, which uses the following accounts:



Cash	Accts. Pay.—Long Supplies	Miscellaneous Expense
Accts. Rec.—David's Limos	Jill Statsholt, Capital	Rent Expense
Supplies	Jill Statsholt, Drawing	Repair Expense
Prepaid Insurance	Sales	Utilities Expense
Accts. Pay.—Akita Supplies	Advertising Expense	

Transactions:

- June 1. Received cash from owner as an investment, \$17,500.00. R1.
2. Paid cash for rent, \$400.00. C1.
3. Paid cash for supplies, \$1,200.00. C2.
4. Bought supplies on account from Akita Supplies, \$2,000.00. M1.
5. Paid cash for insurance, \$4,500.00. C3.
8. Paid cash on account to Akita Supplies, \$1,500.00. C4.
8. Received cash from sales, \$750.00. T8.
8. Sold services on account to David's Limos, \$200.00. S1.
9. Paid cash for electric bill, \$75.00. C5.
10. Paid cash for miscellaneous expense, \$7.00. C6.
10. Received cash from sales, \$750.00. T10.
11. Paid cash for repairs, \$100.00. C7.
11. Received cash from sales, \$850.00. T11.
12. Received cash from sales, \$700.00. T12.
15. Paid cash to owner for personal use, \$350.00. C8.
15. Received cash from sales, \$750.00. T15.
16. Paid cash for supplies, \$1,500.00. C9.
17. Received cash on account from David's Limos, \$200.00. R2.
17. Bought supplies on account from Long Supplies, \$750.00. M2.
17. Received cash from sales, \$600.00. T17.
18. Received cash from sales, \$800.00. T18.
19. Received cash from sales, \$750.00. T19.
22. Bought supplies on account from Long Supplies, \$80.00. M3.
22. Received cash from sales, \$700.00. T22.
23. Paid cash for advertising, \$130.00. C10.
23. Sold services on account to David's Limos, \$650.00. S2.

- June 24. Paid cash for telephone bill, \$60.00. C11.
 24. Received cash from sales, \$600.00. T24.
 25. Received cash from sales, \$550.00. T25.
 26. Paid cash for supplies, \$70.00. C12.
 26. Received cash from sales, \$600.00. T26.
 29. Received cash on account from David's Limos, \$650.00. R3.
 30. Paid cash to owner for personal use, \$375.00. C13.
 30. Received cash from sales, \$800.00. T30.

Instructions:

- The journals for Jill's Car Wash are given in the *Working Papers*. Use page 1 of the journal to journalize the transactions for June 1 through June 16. Source documents are abbreviated as follows: check, C; memorandum, M; receipt, R; sales invoice, S; calculator tape, T.
- Use page 2 of the journal to journalize the transactions for the remainder of June.

4-7

CHALLENGE PROBLEM

Journalizing transactions using a variation of the general journal

Tony Wirth owns a service business called Wirth's Tailors, which uses the following accounts:

Cash	Accts. Pay.—Marker Supplies	Rent Expense
Accts. Rec.—Amy's Uniforms	Tony Wirth, Capital	Utilities Expense
Supplies	Tony Wirth, Drawing	
Prepaid Insurance	Sales	

Transactions:

- June 1. Received cash from owner as an investment, \$17,000.00. R1.
 2. Paid cash for insurance, \$3,000.00. C1.
 3. Bought supplies on account from Marker Supplies, \$2,500.00. M1.
 4. Paid cash for supplies, \$1,400.00. C2.
 8. Paid cash on account to Marker Supplies, \$1,300.00. C3.
 9. Paid cash for rent, \$800.00. C4.
 12. Received cash from sales, \$550.00. T12.
 15. Sold services on account to Amy's Uniforms, \$300.00. S1.
 16. Paid cash for telephone bill, \$70.00. C5.
 22. Received cash on account from Amy's Uniforms, \$300.00. R2.
 25. Paid cash to owner for personal use, \$900.00. C6.

Instructions:

The journal for Wirth's Tailors is given in the *Working Papers*. Wirth's Tailors uses a journal that is slightly different from the journal used in this chapter. Use page 1 of the journal to journalize the transactions. Source documents are abbreviated as follows: check, C; memorandum, M; receipt, R; sales invoice, S; calculator tape, T.

Applied Communication



INTERNET ACTIVITY

Point your browser to

<http://accounting.swpco.com>

Choose **First-Year Course**, choose **Activities**, and complete the activity for Chapter 4.

Careful research about careers will help prepare you for making career choices. There are several U.S. government publications that provide detailed descriptions of many job titles. Two that are available in most public libraries are the *Dictionary of Occupational Titles (DOT)* and the *Occupational Outlook Handbook*.

Instructions: Go to the library and, using one of the two publications listed or any other appropriate resource, find the description for any accounting-related job. Record information you find, such as qualifications needed, job outlook, and earnings. Write one paragraph describing the pros and cons of working in such a job. Be sure to write a topic sentence and a conclusion.

Cases for Critical Thinking

Case During the summer, Willard Kelly does odd jobs to earn money. Mr. Kelly keeps all his money in a single checking account. He writes checks to pay for personal items and for business expenses. These payments include personal clothing, school supplies, gasoline for his car, and recreation. Mr. Kelly uses his check stubs as his accounting records. Are Mr. Kelly's accounting procedures and records correct? Explain your answer.



AUTOMATED ACCOUNTING

RECORDING TRANSACTIONS

General Journal

A journal with two amount columns in which all kinds of entries can be recorded is called a *general journal*. General journal entries are entered in the automated accounting system through the General Journal tab. In a later chapter, special journals will be discussed to instruct you on how to use the other journals on the Journal Entries screen for specific types of transactions. The other tabs on the Journal Entries screen are used for entering purchases, cash payments, cash receipts, and sales.

In an automated accounting system, the transactions that are

entered and posted in the general journal update ledger account balances immediately. For verification purposes, a general ledger report can be displayed or printed to prove account balances.

Recording Transactions in the General Journal Screen

Entering general journal entries can be done in five steps.

1. Enter the date of the transaction, then press the Tab key.
2. Enter the source document number in the Reference column, then press the Tab key.
3. Enter the account number to be debited, then press the Tab key. The account title will be displayed at the bottom of the general journal, just above the command buttons. (In *Automated Accounting 8.0*, the account title is displayed next to the account number after tabbing to the next column.
4. Enter the debit amount, then press the Tab key twice. The cursor will automatically position itself in the Account Number field on the next line of the journal. Enter the account number to be credited, press the Tab key twice, then enter the credit amount.

Date	Refer.	Acct. No.	Debit	Credit
11/01/--	C501	510	750.00	
		110		750.00
11/03/--	C502	530	1000.00	
		110		1000.00
11/03/--	C503			

AUTOMATED ACCOUNTING

5. When the transaction is complete, click the Post button. Posting will be discussed in Chapter 5.

General Journal Transaction Additions, Changes, and Deletions

If you wish to add a part of a transaction, select the journal entry transaction to which you want to add a debit or credit. Click on the Insert button. When the blank line appears, enter the additional transaction debit or credit and click the Post button.

When changing or deleting general journal transactions, you need to select any portion of the desired transaction. Make corrections to the entry, then click the Post button. If you wish to delete the transaction, click the Delete button.

General Journal Report

In this section you will learn how to generate journal reports and specify which journal entries are to appear in the journal report. The general journal report will display or print the general journal entries that were posted for a specified period. Reports are useful in detecting errors and verifying that debits and credits are equal.

A general journal report can be generated in three steps:

1. Choose the Report Selection menu item from the Reports menu or click the Reports toolbar button.
2. When the Report Selection window appears, choose the

Journals option. To change the run date, shown in the upper right corner of the screen, enter the desired date or use the + key to increase and the – key to decrease the date. You may also click on the calendar.

3. Select the General Journal report, then click the OK button. You can choose to include all general journal entries or to customize your report.

AUTOMATING APPLICATION PROBLEM 4-5: Journalizing transactions

Instructions:

1. Load *Automated Accounting 7.0* or higher software.
2. Select database F04-1 from the appropriate directory/folder.
3. Select File from the menu bar and choose the Save As menu command. Key the path to the drive and directory that contains your data files. Save the database with a file name of XXX041 (where XXX are your initials). (*Automated Accounting 8.0* allows long file names. Your instructor may direct you to use your full name when saving your files.)
4. Access Problem Instructions through the Help menu. Read the Problem Instructions screen. (In *Automated Accounting 8.0*, Problem Instructions are

accessed by clicking the Browser toolbar button.)

5. Key the transactions listed on pages 90–91.
6. Exit the *Automated Accounting* software.

AUTOMATING MASTERY PROBLEM 4-6:

Journalizing transactions and proving and ruling a journal

Instructions:

1. Load *Automated Accounting 7.0* or higher software.
2. Select database F04-2 from the appropriate directory/folder.
3. Select File from the menu bar and choose the Save As menu command. Key the path to the drive and directory that contains your data files. Save the database with a file name of XXX042 (where XXX are your initials). (*Automated Accounting 8.0* allows long file names. Your instructor may direct you to use your full name when saving your files.)
4. Access Problem Instructions through the Help menu. Read the Problem Instructions screen. (In *Automated Accounting 8.0*, Problem Instructions are accessed by clicking the Browser toolbar button.)
5. Key the transactions listed on pages 91–92.
6. Exit the *Automated Accounting* software.