

The General Journal and the General Ledger

Boeing

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The International Space Station (ISS) is a truly global project; involving the scientific and technological resources of 16 countries and the efforts of more than 100,000 people throughout the world. As the prime contractor, Boeing has been responsible for design, development, construction, and integration of the ISS, as well as assistance to NASA with the operation of this orbital outpost.

The ISS is the largest, most complex international scientific project in history and our largest adventure into space to date. It cost roughly 150 billion dollars to build! To keep track of the expenditures involved, it was important for Boeing to maintain not only a chronological record of the costs and expenses

incurred in developing and constructing the station, but it was equally important to update individual cost accounts so that accurate and timely cost data were available at any given time. If they were not able to carefully track their spending, the Space Station's construction bill might have cost U.S. taxpayers a heck of a lot more than \$150 billion!

In 2010, Boeing officially turned over the U.S. on-orbit segment of the ISS to NASA. Often referred to as "handing over the keys," the DD-250 is equivalent to a final bill of sale that formally transfers ownership. Through the review board, NASA and Boeing verified the delivery, assembly, integration, and activation of all hardware and software required by contract. The success of the ISS has validated Boeing's position as a leader in the defense industry and has contributed to the company's overall revenue growth.



thinking critically

How do you think Boeing would record the purchase of a robotic arm that could handle large payloads, move equipment and supplies around the station, and support astronauts working outside the space station?

LEARNING OBJECTIVES

- 4-1.** Record transactions in the general journal.
- 4-2.** Prepare compound journal entries.
- 4-3.** Post journal entries to general ledger accounts.
- 4-4.** Correct errors made in the journal or ledger.
- 4-5.** Define the accounting terms new to this chapter.

NEW TERMS

accounting cycle	general journal
audit trail	general ledger
balance ledger form	journal
chronological order	journalizing
compound entry	ledger
correcting entry	posting

Section 1

SECTION OBJECTIVES	TERMS TO LEARN
<p>>> 4-1. Record transactions in the general journal.</p> <p>WHY IT'S IMPORTANT Written records for all business transactions are necessary. The general journal acts as the "diary" of the business.</p> <p>>> 4-2. Prepare compound journal entries.</p> <p>WHY IT'S IMPORTANT Compound entries contain several debits or credits for a single business transaction, creating efficiencies in journalizing.</p>	<p>accounting cycle audit trail chronological order compound entry general journal journal journalizing</p>

The General Journal

The **accounting cycle** is a series of steps performed during each accounting period to classify, record, and summarize data for a business and to produce needed financial information. The first step in the accounting cycle is to analyze business transactions. You learned this skill in Chapter 3. The second step in the accounting cycle is to prepare a record of business transactions.

Journals

Business transactions are recorded in a **journal**, which is a diary of business activities. The journal lists transactions in **chronological order**, that is, in the order in which they occur. The journal is sometimes called the *record of original entry* because it is where transactions are first entered in the accounting records. There are different types of journals. This chapter will examine the general journal. You will become familiar with other journals in later chapters.

Most corporations use accounting software to record business transactions. Industry-specific software is available for accounting firms, oil and gas companies, construction firms, medical firms, and any other industry-specific business enterprise.

>> 4-1. OBJECTIVE

Record transactions in the general journal.

important!

The Diary of a Business

The general journal is similar to a diary. The general journal details, in chronological order, the economic events of the business.

The General Journal

The **general journal** is a financial record for entering all types of business transactions. **Journalizing** is the process of recording transactions in the general journal.

Figure 4.1 shows the general journal for Wells' Consulting Services. Notice that the general journal has a page number. To record a transaction, enter the year at the top of the Date column. In the Date column, write the month and day on the first line of the first entry. After the first entry, enter the year and month only when a new page is started or when the year or the month changes. In the Date column, write the day of each transaction on the first line of each transaction.

In the Description column, enter the account to be debited. Write the account name close to the left margin of the Description column, and enter the amount on the same line in the Debit column.

Enter the account to be credited on the line beneath the debit. Indent the account name about one-half inch from the left margin. Enter the amount on the same line in the Credit column.

Then enter a complete but concise description of the transaction in the Description column. Begin the description on the line following the credit. The description is indented about one inch from the left margin.

Write account names exactly as they appear in the chart of accounts. This will minimize errors when amounts are transferred from the general journal to the accounts.

GENERAL JOURNAL						PAGE <u>1</u>
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT		
1 2016					1	
2 Nov. 6	Cash		100 000 00		2	
3	Carolyn Wells, Capital			100 000 00	3	
4	Investment by owner				4	
5					5	

Record the year first, then the month and day.
 Record the debit first.
 Indent about one-half inch and record the credit.
 Indent again and write the description.

FIGURE 4.1
General Journal Entry

Leave a blank line between general journal entries. Some accountants use this blank line to number each general journal entry.

When possible, the journal entry description should refer to the source of the information. For example, the journal entry to record a payment should include the check number in the description. Document numbers are part of the audit trail. The **audit trail** is a chain of references that makes it possible to trace information, locate errors, and prevent fraud. The audit trail provides a means of checking the journal entry against the original data on the documents.

important!

Audit Trail

To maintain the audit trail, descriptions should refer to document numbers whenever possible.

RECORDING NOVEMBER TRANSACTIONS IN THE GENERAL JOURNAL

In Chapters 2 and 3, you learned a step-by-step method for analyzing business transactions. In this chapter, you will learn how to complete the journal entry for a business transaction in the same manner. Review the following steps before you continue:

- Analyze the financial event:
 - Identify the accounts affected.
 - Classify the accounts affected.
 - Determine the amount of increase or decrease for each account affected.
- Apply the rules of debit and credit:
 - Which account is debited? For what amount?
 - Which account is credited? For what amount?
- Make the entry in T-account form.
- Record the complete entry in general journal form.

BUSINESS TRANSACTION

On November 6, Carolyn Wells withdrew \$100,000 from personal savings and deposited it in a new business checking account for Wells' Consulting Services.

ANALYSIS

- The asset account, *Cash*, is increased by \$100,000.
- The owner's equity account, *Carolyn Wells, Capital*, is increased by \$100,000.



MEMORANDUM 01

TO: Carlos Valdez
 FROM: Carolyn Wells
 DATE: November 6, 2016
 SUBJECT: Contributed personal funds to the business

I contributed \$100,000 from my personal savings to Wells' Consulting Services.

▼

DEBIT-CREDIT RULES

DEBIT Increases to asset accounts are recorded as debits. Debit **Cash** for \$100,000.

CREDIT Increases to the owner's equity account are recorded as credits. Credit **Carolyn Wells, Capital** for \$100,000.

▼

T-ACCOUNT PRESENTATION

Cash		Carolyn Wells, Capital	
	+	-	
(a)	100,000	-	(a) 100,000

▼

GENERAL JOURNAL ENTRY

GENERAL JOURNAL						PAGE <u>1</u>
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	2016					1
2	Nov. 6	Cash		100 0 0 0 00		2
3		Carolyn Wells, Capital			100 0 0 0 00	3
4		Investment by owner,				4
5		Memo 01				5

BUSINESS TRANSACTION

On November 7, Wells' Consulting Services issued Check 1001 for \$5,000 to purchase a computer and other equipment.

▼

ANALYSIS

b. The asset account, **Equipment**, is increased by \$5,000.

b. The asset account, **Cash**, is decreased by \$5,000.

\$ 5,000.00 No. 1001

Date November 7, 2016

To The Information Technology Store

For Office Equipment

	Dollars	Cents
Balance brought forward	100,000	00
Add deposits		
Total	100,000	00
Less this check	5,000	00
Balance carried forward	95,000	00

▼

DEBIT-CREDIT RULES

DEBIT Increases to asset accounts are recorded as debits. Debit **Equipment** for \$5,000.

CREDIT Decreases to asset accounts are recorded as credits. Credit **Cash** for \$5,000.

▼

T-ACCOUNT PRESENTATION

Equipment		Cash	
	+	+	-
(b)	5,000	(b)	5,000

V
V

GENERAL JOURNAL ENTRY

GENERAL JOURNAL					PAGE <u>1</u>
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
6 Nov. 7	Equipment		5 0 0 0 00		6
7	Cash			5 0 0 0 00	7
8	Purchased equip., Check 1001				8

The check number appears in the description and forms part of the audit trail for the transaction.

BUSINESS TRANSACTION

On November 10, Wells' Consulting Services purchased office equipment on account for \$6,000.

OFFICE <i>plus</i>		INVOICE NO. 2223	
TO Wells' Consulting Services		DATE: Nov. 10, 2016	
		ORDER NO.: P38	
		SHIPPED BY: n/a	
		TERMS: 60 days	
QTY.	ITEM	UNIT PRICE	TOTAL
1	Copier	500	500
1	Fax Machine	300	300
4	Computers	1,025	4,100
3	Printers	250	750
2	Scanners	125	250
2	Calculators	50	100
	Total		6,000

V
V

ANALYSIS

- c. The asset account, **Equipment**, is increased by \$6,000.
- c. The liability account, **Accounts Payable**, is increased by \$6,000.

V
V

DEBIT-CREDIT RULES

DEBIT Increases to asset accounts are recorded as debits. Debit **Equipment** for \$6,000.

CREDIT Increases to liability accounts are recorded as credits. Credit **Accounts Payable** for \$6,000.

V
V

T-ACCOUNT PRESENTATION

Equipment		Accounts Payable	
+ (c) 6,000	-	-	+ (c) 6,000

V
V

GENERAL JOURNAL ENTRY

GENERAL JOURNAL					PAGE <u>1</u>
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
10 Nov. 10	Equipment		6 0 0 0 00		10
11	Accounts Payable			6 0 0 0 00	11
12	Purchased equipment on				12
13	account from Office Plus,				13
14	Inv. 2223, due in 60 days				14

The supplier's name (Office Plus) and invoice number (2223) appear in the journal entry description and form part of the audit trail for the transaction. The journal entry can be checked against the data on the original document, Invoice 2223.

BUSINESS TRANSACTION

On November 28, Wells' Consulting Services purchased supplies for \$1,500, Check 1002.

ANALYSIS

d. The asset account, **Supplies**, is increased by \$1,500.
 d. The asset account, **Cash**, is decreased by \$1,500.

\$ 1,500.00 **No. 1002**

Date November 28, 2016

To Office Delux, Inc.

For Supplies

DEBIT-CREDIT RULES

DEBIT Increases to asset accounts are recorded as debits. Debit **Supplies** for \$1,500.

CREDIT Decreases to asset accounts are recorded as credits. Credit **Cash** for \$1,500.

	Dollars	Cents
Balance brought forward	95,000	00
Add deposits		
Total	95,000	00
Less this check	1,500	00
Balance carried forward	93,500	00

T-ACCOUNT PRESENTATION

Supplies		Cash	
+		+	
(d) 1,500	-	(d) 1,500	-

GENERAL JOURNAL ENTRY

GENERAL JOURNAL					PAGE <u>1</u>
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
16 Nov. 28	Supplies		1,500.00		16
17	Cash			1,500.00	17
18	Purchased supplies,				18
19	Check 1002				19
20					20

Carlos Valdez decided to reduce the firm's debt to Office Plus. Recall that the firm had purchased equipment on account in the amount of \$6,000. On November 30, Wells' Consulting Services issued a check to Office Plus. Carlos Valdez analyzed the transaction and recorded the journal entry as follows.

BUSINESS TRANSACTION

On November 30, Wells' Consulting Services paid Office Plus \$2,500 in partial payment of Invoice 2223, Check 1003.

ANALYSIS

e. The asset account, *Cash*, is decreased by \$2,500.
 e. The liability account, *Accounts Payable*, is decreased by \$2,500.

DEBIT-CREDIT RULES

DEBIT Decreases to liability accounts are recorded as debits. Debit *Accounts Payable* for \$2,500.
CREDIT Decreases to asset accounts are recorded as credits. Credit *Cash* for \$2,500.

T-ACCOUNT PRESENTATION

Accounts Payable		Cash	
-	+ (e) 2,500	+	- (e) 2,500

GENERAL JOURNAL ENTRY

GENERAL JOURNAL					PAGE <u>1</u>
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
21: Nov. 30	Accounts Payable		2 5 0 0 00		21
22:	Cash			2 5 0 0 00	22
23:	Paid on account, Office Plus,				23
24:	Invoice 2223, Check 1003				24

\$ 2,500.00 **No. 1003**

Date November 30, 20 16

To Office Plus

For Payment on Account

	Dollars	Cents
Balance brought forward	93,500	00
Add deposits		
Total	93,500	00
Less this check	2,500	00
Balance carried forward	91,000	00

Notice that the general journal Description column includes three important items for the audit trail:

- the supplier name,
- the invoice number,
- the check number.

In the general journal, always enter debits before credits. This is the case even if the credit item is considered first when mentally analyzing the transaction.

Wells' Consulting Services issued a check in November to pay December and January rent in advance. Recall that the right to occupy facilities is considered a form of property. Carlos Valdez analyzed the transaction and recorded the journal entry as follows.

BUSINESS TRANSACTION

On November 30, Wells' Consulting Services wrote Check 1004 for \$8,000 to prepay rent for December and January.

ANALYSIS

f. The asset account, *Prepaid Rent*, is increased by \$8,000.
 f. The asset account, *Cash*, is decreased by \$8,000.

\$ 8,000.00 **No. 1004**

Date November 30, 20 16

To Davidson Properties

For Prepaid Rent

	Dollars	Cents
Balance brought forward	91,000	00
Add deposits		
Total	91,000	00
Less this check	8,000	00
Balance carried forward	83,000	00

V
V

DEBIT-CREDIT RULES

DEBIT Increases to asset accounts are recorded as debits. Debit *Prepaid Rent* for \$8,000.

CREDIT Decreases to asset accounts are recorded as credits. Credit *Cash* for \$8,000.

V
V

T-ACCOUNT PRESENTATION

Prepaid Rent		Cash	
+	-	+	-
(f) 8,000			(f) 8,000

V
V

GENERAL JOURNAL ENTRY

GENERAL JOURNAL					PAGE <u>1</u>
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
26 Nov. 30	Prepaid Rent		8 0 0 0 00		26
27	Cash			8 0 0 0 00	27
28	Paid Dec. and Jan. rent				28
29	in advance; Check 1004				29

RECORDING DECEMBER TRANSACTIONS IN THE GENERAL JOURNAL

Wells’ Consulting Services opened for business on December 1. Let’s review the transactions that occurred in December. Refer to items **g** through **l** in Chapter 3 for the analysis of each transaction.

1. Performed services for \$36,000 in cash.
2. Performed services for \$11,000 on credit.
3. Received \$6,000 in cash from credit clients on their accounts.
4. Paid \$8,000 for salaries.
5. Paid \$650 for a utility bill.
6. The owner withdrew \$5,000 for personal expenses.

Figure 4.2 shows the entries in the general journal. In an actual business, transactions involving fees income and accounts receivable occur throughout the month and are recorded when they take place. For the sake of simplicity, these transactions are summarized and recorded as of December 31 for Wells’ Consulting Services.

>> 4-2. OBJECTIVE

Prepare compound journal entries.

PREPARING COMPOUND ENTRIES

So far, each journal entry consists of one debit and one credit. Some transactions require a **compound entry**—a journal entry that contains more than one debit or credit. In a compound entry, record all debits first followed by the credits.

When Allstate purchased an insurance division of CNA Financial Corporation, Allstate paid cash and issued a 10-year note payable (a promise to pay). Detailed accounting records are not available to the public, but a compound journal entry was probably used to record this transaction.

GENERAL JOURNAL					PAGE	2
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT		
1 2016						1
2 Dec. 31	Cash		36 000 00			2
3	Fees Income			36 000 00		3
4	<i>Performed services for cash</i>					4
5						5
6 31	Accounts Receivable		11 000 00			6
7	Fees Income			11 000 00		7
8	<i>Performed services on credit</i>					8
9						9
10 31	Cash		6 000 00			10
11	Accounts Receivable			6 000 00		11
12	<i>Received cash from credit clients on account</i>					12
13						13
14						14
15 31	Salaries Expense		8 000 00			15
16	Cash			8 000 00		16
17	<i>Paid monthly salaries to employees, Checks 1005–1006</i>					17
18						18
19						19
20						20
21 31	Utilities Expense		6 500 00			21
22	Cash			6 500 00		22
23	<i>Paid monthly bill for utilities, Check 1007</i>					23
24						24
25						25
26 31	Carolyn Wells, Drawing		5 000 00			26
27	Cash			5 000 00		27
28	<i>Owner withdrew cash for personal expenses, Check 1008</i>					28
29						29
30						30
31						31
32						32
33						33
34						34
35						35

FIGURE 4.2

General Journal Entries for December

Suppose that on November 7, when Wells' Consulting Services purchased the equipment for \$5,000, Carolyn Wells paid \$2,500 in cash and agreed to pay the balance in 30 days. This transaction is analyzed below and on the next page.

BUSINESS TRANSACTION

On November 7, the firm purchased equipment for \$5,000, issued Check 1001 for \$2,500, and agreed to pay the balance in 30 days.

ANALYSIS

The asset account, **Equipment**, is increased by \$5,000. The asset account, **Cash**, is decreased by \$2,500.

The liability account, **Accounts Payable**, is increased by \$2,500.

DEBIT-CREDIT RULES

DEBIT Increases to assets are recorded as debits. Debit **Equipment** for \$5,000.

CREDIT Decreases to assets are credits. Credit **Cash** for \$2,500. Increases to liabilities are credits. Credit **Accounts Payable** for \$2,500.

T-ACCOUNT PRESENTATION

Equipment		Cash		Accounts Payable	
+	-	+	-	-	+
5,000			2,500		2,500

GENERAL JOURNAL ENTRY

GENERAL JOURNAL						PAGE <u>1</u>
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT		
6 Nov. 7	Equipment		5 0 0 0 00		6	
7	Cash			2 5 0 0 00	7	
8	Accounts Payable			2 5 0 0 00	8	
9	Bought equip. from The				9	
10	Information Technology Store,				10	
11	Inv. 11, issued Ck. 1001 for				11	
12	\$2,500, bal. due in 30 days				12	

recall

Debits = Credits

No matter how many accounts are affected by a transaction, total debits must equal total credits.

Section 1 Self Review

EXERCISES

- A general journal is like a(n):
 - address book.
 - appointment calendar.
 - diary.
 - to-do list.
- The part of the journal entry to be recorded first is the:
 - asset.
 - credit.

- debit.
- liability.

QUESTIONS

- Why is the journal referred to as the “record of original entry”?
- In a compound journal entry, if two accounts are debited, must two accounts be credited?
- Why are check and invoice numbers included in the journal entry description?

ANALYSIS

- The accountant for Elegant Lawncare never includes descriptions when making journal entries. What effect will this have on the accounting system?

(Answers to Section 1 Self Review are on page 120.)

Section 2

SECTION OBJECTIVES	TERMS TO LEARN
<p>>> 4-3. Post journal entries to general ledger accounts.</p> <p>WHY IT'S IMPORTANT The general ledger provides a permanent, classified record for a company's accounts.</p> <p>>> 4-4. Correct errors made in the journal or ledger.</p> <p>WHY IT'S IMPORTANT Errors must be corrected to ensure a proper audit trail and to provide good information.</p>	<p>balance ledger form correcting entry general ledger ledger posting</p>

The General Ledger

You learned that a journal contains a chronological (day-by-day) record of a firm's transactions. Each journal entry shows the accounts and the amounts involved. Using the journal as a guide, you can enter transaction data in the accounts.

Ledgers

T accounts are used to analyze transactions quickly but are not used to maintain financial records. Instead, businesses keep account records on a special form that makes it possible to record all data efficiently. There is a separate form for each account. The account forms are kept in a book or binder called a **ledger**. The ledger is called the *record of final entry* because the ledger is the last place that accounting transactions are recorded.

The process of transferring data from the journal to the ledger is known as **posting**. Posting takes place after transactions are journalized. Posting is the third step of the accounting cycle.

THE GENERAL LEDGER

Every business has a general ledger. The **general ledger** is the master reference file for the accounting system. It provides a permanent, classified record of all accounts used in a firm's operations.

LEDGER ACCOUNT FORMS

There are different types of general ledger account forms. Carlos Valdez decided to use a balance ledger form. A **balance ledger form** shows the balance of the account after each entry is posted. Look at Figure 4.3 on page 100. It shows the first general journal entry, the investment by the owner. It also shows the general ledger forms for *Cash* and *Carolyn Wells, Capital*. On the ledger form, notice the:

- account name and number;
- columns for date, description, and posting reference (post. ref.);
- columns for debit, credit, balance debit, and balance credit.

important!

General Journal and General Ledger

The general journal is the record of *original* entry. The general ledger is the record of *final* entry.

FIGURE 4.3

Posting from the General Journal to the General Ledger

ABOUT ACCOUNTING

Careers

How do you get to be the president of a large corporation in the United States? Probably by beginning your career as an accountant. More accountants have advanced to be presidents of large corporations than people with any other background.

GENERAL JOURNAL										PAGE <u>1</u>	
DATE	DESCRIPTION		POST. REF.	DEBIT			CREDIT				
2016											
Nov. 6		Cash	101	100	0	0	0	00			
		Carolyn Wells, Capital	301						100	0	0
		Investment by owner									
ACCOUNT <u>Cash</u>										ACCOUNT NO. <u>101</u>	
DATE	DESCRIPTION	POST. REF.	DEBIT			CREDIT			BALANCE		
			DEBIT			CREDIT			DEBIT	CREDIT	
2016											
Nov. 6		J1	100	0	0	0	00		100	0	
ACCOUNT <u>Carolyn Wells, Capital</u>										ACCOUNT NO. <u>301</u>	
DATE	DESCRIPTION	POST. REF.	DEBIT			CREDIT			BALANCE		
			DEBIT			CREDIT			DEBIT	CREDIT	
2016											
Nov. 6		J1				100	0	0	00	100	

>> 4-3. OBJECTIVE

Post journal entries to general ledger accounts.

POSTING TO THE GENERAL LEDGER

Examine Figure 4.4. On November 7, Carlos Valdez made a general journal entry to record the purchase of equipment. To post the data from the journal to the general ledger, Valdez entered the debit amount in the Debit column in the *Equipment* account and the credit amount in the Credit column in the *Cash* account.

In the general journal, identify the first account listed. In Figure 4.4, *Equipment* is the first account. In the general ledger, find the ledger form for the first account listed. In Figure 4.4, this is the *Equipment* ledger form.

The steps to post from the general journal to the general ledger follow:

1. On the ledger form, enter the date of the transaction. Enter a description of the entry, if necessary. Usually routine entries do not require descriptions.
2. On the ledger form, enter the general journal page in the Posting Reference column. On the *Equipment* ledger form, the **J1** in the Posting Reference column indicates that the journal entry is recorded on page 1 of the general journal. The letter **J** refers to the general journal.
3. On the ledger form, enter the debit amount in the Debit column or the credit amount in the Credit column. In Figure 4.4 on the *Equipment* ledger form, \$5,000 is entered in the Debit column.
4. On the ledger form, compute the balance and enter it in the Debit Balance column or the Credit Balance column. In Figure 4.4, the balance in the *Equipment* account is a \$5,000 debit.
5. On the general journal, enter the ledger account number in the Posting Reference column. In Figure 4.4, the account number 141 is entered in the Posting Reference column next to "Equipment."

Repeat the process for the next account in the general journal. In Figure 4.4, Valdez posted the credit amount from the general journal to the *Cash* ledger account. Notice on the *Cash* ledger form that he entered the credit of \$5,000 and then computed the account balance. After the transaction is posted, the balance of the *Cash* account is \$95,000.

Be sure to enter the numbers in the Posting Reference columns. This indicates that the entry was posted and ensures against posting the same entry twice. Posting references are part of the audit trail. They allow a transaction to be traced from the ledger to the journal entry, and then to the source document.

recall

Normal Balance

The normal balance of an account is its increase side.

GENERAL JOURNAL PAGE 1

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
1	2016			
6	Nov. 7 Equipment	141	5 0 0 0 00	
7	Cash	101		5 0 0 0 00
8	Purchased equipment,			
9	Check 1001			
10				
11				

ACCOUNT <u>Equipment</u> ACCOUNT NO. <u>141</u>						
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
2016						
Nov. 7		J1	5 0 0 0 00		5 0 0 0 00	

ACCOUNT <u>Cash</u> ACCOUNT NO. <u>101</u>						
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
2016						
Nov. 6		J1	100 0 0 0 00		100 0 0 0 00	
7		J1		5 0 0 0 00	95 0 0 0 00	

FIGURE 4.4
Posting to the General Ledger

Figure 4.5 shows the general ledger after all the entries for November and December are posted.

Each ledger account provides a complete record of the increases and decreases to that account. The balance ledger form also shows the current balance for the account.

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

- assets
- liabilities
- owner's equity
- revenue
- expenses

This arrangement speeds the preparation of the trial balance and the financial statements.

ACCOUNT <u>Cash</u> ACCOUNT NO. <u>101</u>						
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
2016						
Nov. 6		J1	100 0 0 0 00		100 0 0 0 00	
7		J1		5 0 0 0 00	95 0 0 0 00	
28		J1		1 5 0 0 00	93 5 0 0 00	
30		J1		2 5 0 0 00	91 0 0 0 00	
30		J1		8 0 0 0 00	83 0 0 0 00	
Dec. 31		J2	36 0 0 0 00		119 0 0 0 00	
31		J2	6 0 0 0 00		125 0 0 0 00	
31		J2		8 0 0 0 00	117 0 0 0 00	
31		J2		6 5 0 0 00	116 3 5 0 00	
31		J2		5 0 0 0 00	111 3 5 0 00	

FIGURE 4.5
Posted General Ledger Accounts

(continued)

FIGURE 4.5 (continued)

ACCOUNT		Accounts Receivable										ACCOUNT NO. 111					
DATE	DESCRIPTION	POST. REF.	DEBIT			CREDIT			BALANCE								
										DEBIT	CREDIT						
2016																	
Dec.	31	J2	11	0	0	0	00						11	0	0	0	00
	31	J2				6	0	0	0	00			5	0	0	0	00

ACCOUNT		Supplies										ACCOUNT NO. 121					
DATE	DESCRIPTION	POST. REF.	DEBIT			CREDIT			BALANCE								
										DEBIT	CREDIT						
2016																	
Nov.	28	J1	1	5	0	0	00						1	5	0	0	00

ACCOUNT		Prepaid Rent										ACCOUNT NO. 137					
DATE	DESCRIPTION	POST. REF.	DEBIT			CREDIT			BALANCE								
										DEBIT	CREDIT						
2016																	
Nov.	30	J1	8	0	0	0	00						8	0	0	0	00

ACCOUNT		Equipment										ACCOUNT NO. 141					
DATE	DESCRIPTION	POST. REF.	DEBIT			CREDIT			BALANCE								
										DEBIT	CREDIT						
2016																	
Nov.	7	J1	5	0	0	0	00						5	0	0	0	00
	10	J1	6	0	0	0	00						11	0	0	0	00

ACCOUNT		Accounts Payable										ACCOUNT NO. 202									
DATE	DESCRIPTION	POST. REF.	DEBIT			CREDIT			BALANCE												
										DEBIT	CREDIT										
2016																					
Nov.	10	J1						6	0	0	0	00					6	0	0	0	00
	30	J1	2	5	0	0	00										3	5	0	0	00

ACCOUNT		Carolyn Wells, Capital										ACCOUNT NO. 301									
DATE	DESCRIPTION	POST. REF.	DEBIT			CREDIT			BALANCE												
										DEBIT	CREDIT										
2016																					
Nov.	6	J1						100	0	0	0	00					100	0	0	0	00

ACCOUNT		Carolyn Wells, Drawing										ACCOUNT NO. 302									
DATE	DESCRIPTION	POST. REF.	DEBIT			CREDIT			BALANCE												
										DEBIT	CREDIT										
2016																					
Dec.	31	J2	5	0	0	0	00						5	0	0	0	00				

(continued)

FIGURE 4.5 (continued)

ACCOUNT <i>Fees Income</i> ACCOUNT NO. <u>401</u>									
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE				
					DEBIT	CREDIT			
2016									
Dec. 31		J2		36 000 00			36 000 00		
	31	J2		11 000 00			47 000 00		

ACCOUNT <i>Salaries Expense</i> ACCOUNT NO. <u>511</u>									
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE				
					DEBIT	CREDIT			
2016									
Dec. 31		J2	8 000 00				8 000 00		

ACCOUNT <i>Utilities Expense</i> ACCOUNT NO. <u>514</u>									
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE				
					DEBIT	CREDIT			
2016									
Dec. 31		J2	6 500 00				6 500 00		

Correcting Journal and Ledger Errors

Sometimes errors are made when recording transactions in the journal. For example, a journal entry may show the wrong account name or amount. The method used to correct an error depends on whether or not the journal entry has been posted to the ledger:

- If the error is discovered *before* the entry is posted, neatly cross out the incorrect item and write the correct data above it. Do not erase the error. To ensure honesty and provide a clear audit trail, erasures are not made in the journal.
- If the error is discovered *after* posting, a **correcting entry**—a journal entry made to correct the erroneous entry—is journalized and posted. Do not erase or change the journal entry or the postings in the ledger accounts.

Note that erasures are never permitted in the journal or ledger.

>> 4-4. OBJECTIVE

Correct errors made in the journal or ledger.

recall

Order of Accounts

The general ledger lists accounts in the same order as they appear on the trial balance: assets, liabilities, owner's equity, revenue, and expenses.

MANAGERIAL IMPLICATIONS <<

ACCOUNTING SYSTEMS

- Business managers should be sure that their firms have efficient procedures for recording transactions.
- A well-designed accounting system allows timely and accurate posting of data to the ledger accounts.
- The information that appears in the financial statements is taken from the general ledger.
- Since management uses financial information for decision making, it is essential that the financial statements be prepared quickly at the end of each period and that they contain the correct amounts.

- The promptness and accuracy of the statements depend on the efficiency of the recording process.
- A well-designed accounting system has a strong audit trail.
- Every business should be able to trace amounts through the accounting records and back to the documents where the transactions were first recorded.

THINKING CRITICALLY

What are the consequences of not having a good audit trail?

Let's look at an example. On September 1, an automobile repair shop purchased some shop equipment for \$18,000 in cash. By mistake, the journal entry debited the *Office Equipment* account rather than the *Shop Equipment* account, as follows.

GENERAL JOURNAL						PAGE 16
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT		
1 2016					1	
2 Sept. 1	Office Equipment	141	18 000 00		2	
3	Cash	101		18 000 00	3	
4	Purchased equipment,				4	
5	Check 1104				5	
6					6	
7					7	

The error was discovered after the entry was posted to the ledger. To correct the error, a correcting journal entry was prepared and posted. The correcting entry debits *Shop Equipment* and credits *Office Equipment* for \$18,000. This entry transfers \$18,000 out of the *Office Equipment* account and into the *Shop Equipment* account.

GENERAL JOURNAL						PAGE 28
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT		
1 2016					1	
2 Oct. 1	Shop Equipment	151	18 000 00		2	
3	Office Equipment	141		18 000 00	3	
4	To correct error made on				4	
5	Sept. 1 when a purchase				5	
6	of shop equipment was				6	
7	recorded as office				7	
8	equipment				8	
9					9	
10					10	

Suppose that the error was discovered before the journal entry was posted to the ledger. In that case, the accountant would neatly cross out "Office Equipment" and write "Shop Equipment" above it. The correct account (*Shop Equipment*) would be posted to the ledger in the usual manner.

Section 2 Self Review

QUESTIONS

- Are the following statements true or false? Why?
 - "If a journal entry that contains an error has been posted, erase the entry and change the posting in the ledger accounts."
 - "Once an incorrect journal entry has been posted, the incorrect amounts remain in the general ledger accounts."
- What is entered in the Posting Reference column of the general journal?
- Why are posting references made in ledger accounts and in the journal?

EXERCISES

- The general ledger organizes accounting information in:
 - account order.
 - alphabetical order.
 - date order.
- The general journal organizes accounting information in:
 - account order.
 - alphabetical order.
 - date order.

ANALYSIS

- Draw a diagram of the first three steps of the accounting cycle.

(Answers to Section 2 Self Review are on page 120.)

REVIEW Chapter Summary

Chapter 4

In this chapter, you have studied the method for journalizing business transactions in the records of a company. The details of each transaction are then posted to the general ledger. A well-designed accounting system provides for prompt and accurate journalizing and posting of all transactions.

Learning Objectives

4-1 Record transactions in the general journal.

- Recording transactions in a journal is called journalizing, the second step in the accounting cycle.
 - A journal is a daily record of transactions.
 - A written analysis of each transaction is contained in a journal.
- The general journal is widely used in business. It can accommodate all kinds of business transactions. Use the following steps to record a transaction in the general journal:
 - Number each page in the general journal. The page number will be used as a posting reference.
 - Enter the year at the top of the Date column. After that, enter the year only when a new page is started or when the year changes.
 - Enter the month and day in the Date column of the first line of the first entry. After that, enter the month only when a new page is started or when the month changes. Always enter the day on the first line of a new entry.
 - Enter the name of the account to be debited in the Description column.
 - Enter the amount to be debited in the Debit column.
 - Enter the name of the account to be credited on the next line. Indent the account name about one-half inch.
 - Enter the amount to be credited in the Credit column.
 - Enter a complete but concise description on the next line. Indent the description about one inch.
- Note that the debit portion is always recorded first.
- If possible, include source document numbers in descriptions in order to create an audit trail.

4-2 Prepare compound journal entries.

A transaction might require a journal entry that contains several debits or credits. All debits are recorded first, followed by the credits.

4-3 Post journal entries to general ledger accounts.

- Posting to the general ledger is the third step in the accounting cycle. Posting is the transfer of data from journal entries to ledger accounts.
- The individual accounts together form a ledger. All the accounts needed to prepare financial statements are found in the general ledger.
- Use the following steps to post a transaction.
 - On the ledger form:
 1. Enter the date of the transaction. Enter the description, if necessary.
 2. Enter the posting reference in the Posting Reference column. When posting from the general journal, use the letter **J** followed by the general journal page number.
 3. Enter the amount in either the Debit column or the Credit column.
 4. Compute the new balance and enter it in either the Debit Balance column or the Credit Balance column.
 - On the general journal:
 5. Enter the ledger account number in the Posting Reference column.
- To summarize the steps of the accounting cycle discussed so far:
 1. Analyze transactions.
 2. Journalize transactions.
 3. Post transactions.

4-4 Correct errors made in the journal or ledger.

To ensure honesty and to provide a clear audit trail, erasures are not permitted in a journal. A correcting entry is journalized and posted to correct a previous mistake. Posting references in the journal and the ledger accounts cross reference the entries and form another part of the audit trail. They make it possible to trace or recheck any transaction.

4-5 Define the accounting terms new to this chapter.

Glossary

Accounting cycle (p. 90) A series of steps performed during each accounting period to classify, record, and summarize data for a business and to produce needed financial information

Audit trail (p. 91) A chain of references that makes it possible to trace information, locate errors, and prevent fraud

Balance ledger form (p. 99) A ledger account form that shows the balance of the account after each entry is posted

Chronological order (p. 90) Organized in the order in which the events occur

Compound entry (p. 96) A journal entry with more than one debit or credit

Correcting entry (p. 103) A journal entry made to correct an erroneous entry

General journal (p. 90) A financial record for entering all types of business transactions; a record of original entry

General ledger (p. 99) A permanent, classified record of all accounts used in a firm's operation; a record of final entry

Journal (p. 90) The record of original entry

Journalizing (p. 90) Recording transactions in a journal

Ledger (p. 99) The record of final entry

Posting (p. 99) Transferring data from a journal to a ledger

Comprehensive Self Review

1. Give examples of items that might appear in an audit trail.
2. Which of the following shows both the debits and credits of the entire transaction?
 - a. An entry in the general journal
 - b. A posting to a general ledger account
3. What is recorded in the Posting Reference column of a general journal?
4. Why is the ledger called the "record of final entry"?
5. How do you correct an incorrect journal entry that has not been posted?

(Answers to Comprehensive Self Review are on pages 120–121.)

Discussion Questions

1. What is posting?
2. What is a ledger?
3. In what order are accounts arranged in the general ledger? Why?
4. What are posting references? Why are they used?
5. What is the purpose of a journal?
6. What is the value of having a description for each general journal entry?
7. What procedure is used to record an entry in the general journal?
8. What is a compound journal entry?
9. How should corrections be made in the general journal?
10. What is an audit trail? Why is it desirable to have an audit trail?
11. What is the accounting cycle?

APPLICATIONS

Exercises

Analyzing transactions.

Selected accounts from the general ledger of the Zantex Shipping Service follow. Analyze the following transactions and indicate by number what accounts should be debited and credited for each transaction.

- 101 Cash
- 111 Accounts Receivable
- 121 Supplies
- 131 Equipment
- 202 Accounts Payable
- 301 Sam Taylor, Capital
- 401 Fees Income
- 511 Rent Expense
- 514 Salaries Expense
- 517 Utilities Expense

TRANSACTIONS

1. Gave a cash refund of \$1,500 to a customer because of a lost package. (The customer had previously paid in cash.)
2. Sent a check for \$2,100 to the utility company to pay the monthly bill.
3. Provided services for \$15,600 on credit.
4. Purchased new equipment for \$9,200 and paid for it immediately by check.
5. Issued a check for \$7,000 to pay a creditor on account.
6. Performed services for \$10,500 in cash.
7. Collected \$12,500 from credit customers.
8. The owner made an additional investment of \$50,000 in cash.
9. Purchased supplies for \$6,500 on credit.
10. Issued a check for \$7,500 to pay the monthly rent.

Recording transactions in the general journal.

Selected accounts from the general ledger of Tucker Consulting Services follow. Record the general journal entries that would be made to record the following transactions. Be sure to include dates and descriptions in these entries.

- 101 Cash
- 111 Accounts Receivable
- 121 Supplies
- 131 Equipment
- 141 Automobile
- 202 Accounts Payable
- 301 Jewell Tucker, Capital
- 302 Jewell Tucker, Drawing
- 401 Fees Income
- 511 Rent Expense
- 514 Salaries Expense
- 517 Telephone Expense



Exercise 4.1

Objective 4-1



Exercise 4.2

Objective 4-1

DATE	TRANSACTIONS
2016	
Sept. 1	Jewell Tucker invested \$60,000 in cash to start the firm.
4	Purchased office equipment for \$6,500 on credit from Den, Inc.; received Invoice 9823, payable in 30 days.
16	Purchased an automobile that will be used to visit clients; issued Check 1001 for \$14,500 in full payment.
20	Purchased supplies for \$520; paid immediately with Check 1002.
23	Returned damaged supplies for a cash refund of \$170.
30	Issued Check 1003 for \$4,200 to Den, Inc., as payment on account for Invoice 9823.
30	Withdrew \$3,000 in cash for personal expenses.
30	Issued Check 1004 for \$1,700 to pay the rent for October.
30	Performed services for \$2,750 in cash.
30	Paid \$435 for monthly telephone bill, Check 1005.

Exercise 4.3 ► Posting to the general ledger.

Objectives 4-1, 4-3

CONTINUING >>>
Problem

Post the journal entries that you prepared for Exercise 4.2 to the general ledger. Use the account names shown in Exercise 4.2.

Exercise 4.4 ► Compound journal entries.

Objective 4-2

The following transactions took place at the Apollo Employment Agency during November 2016. Record the general journal entries that would be made for these transactions. Use a compound entry for each transaction.

DATE	TRANSACTIONS
Nov. 5	Performed services for Job Search, Inc., for \$40,000; received \$19,000 in cash and the client promised to pay the balance in 60 days.
18	Purchased a graphing calculator for \$425 and some supplies for \$575 from Office Supply; issued Check 1008 for the total.
23	Received Invoice 1602 for \$2,100 from Automotive Technicians Repair for repairs to the firm's automobile; issued Check 1009 for half the amount and arranged to pay the other half in 30 days.

Exercise 4.5 ► Recording a correcting entry.

Objective 4-4

On July 9, 2016, an employee of Capital Corporation mistakenly debited *Utilities Expense* rather than *Telephone Expense* when recording a bill of \$1,000 for the May telephone service. The error was discovered on July 30. Prepare a general journal entry to correct the error.

Exercise 4.6 ► Recording a correcting entry.

Objective 4-4

On September 16, 2016, an employee of Cannon Company mistakenly debited the *Truck* account rather than the *Repair Expense* account when recording a bill of \$800 for repairs. The error was discovered on October 1. Prepare a general journal entry to correct the error.

PROBLEMS

Problem Set A



Recording transactions in the general journal.

The transactions that follow took place at the Cedar Hill Sports Arena during September 2016. This firm has indoor courts where customers can play tennis for a fee. It also rents equipment and offers tennis lessons.

INSTRUCTIONS

Record each transaction in the general journal, using the following chart of accounts. Be sure to number the journal page 1 and to write the year at the top of the Date column. Include a description for each entry.

ASSETS

- 101 Cash
- 111 Accounts Receivable
- 121 Supplies
- 141 Equipment

LIABILITIES

- 202 Accounts Payable

OWNER'S EQUITY

- 301 Selena Cantu, Capital
- 302 Selena Cantu, Drawing

REVENUE

- 401 Fees Income

EXPENSES

- 511 Equipment Repair Expense
- 512 Rent Expense
- 513 Salaries Expense
- 514 Telephone Expense
- 517 Utilities Expense

Problem 4.1A Objective 4-1

DATE	TRANSACTIONS
Sept. 1	Issued Check 1169 for \$1,900 to pay the September rent.
5	Performed services for \$3,000 in cash.
6	Performed services for \$1,850 on credit.
10	Paid \$700 for monthly telephone bill; issued Check 1170.
11	Paid for equipment repairs of \$940 with Check 1171.
12	Received \$3,700 on account from credit clients.
15	Issued Checks 1172–1177 for \$4,700 for salaries.
18	Issued Check 1178 for \$2,500 to purchase supplies.
19	Purchased new tennis rackets for \$2,750 on credit from The Tennis Supply Shop; received Invoice 3108, payable in 30 days.
20	Issued Check 1179 for \$2,860 to purchase new nets. (Equip.)
21	Received \$1,050 on account from credit clients.
21	Returned a damaged net and received a cash refund of \$550.
22	Performed services for \$3,360 in cash.
23	Performed services for \$4,950 on credit.
26	Issued Check 1180 for \$560 to purchase supplies.
28	Paid the monthly electric bill of \$2,350 with Check 1181.
30	Issued Checks 1182–1187 for \$4,700 for salaries.
30	Issued Check 1188 for \$4,700 cash to Selena Cantu for personal expenses.

Analyze: If the company paid a bill for supplies on October 1, what check number would be included in the journal entry description?

Problem 4.2A**Objectives 4-1,
4-2, 4-3**Sage 50
Complete Accounting**Journalizing and posting transactions.**

On October 1, 2016, Satillo Richey opened an advertising agency. He plans to use the chart of accounts listed below.

INSTRUCTIONS

1. Journalize the transactions. Number the journal page 1, write the year at the top of the Date column, and include a description for each entry.
2. Post to the ledger accounts. Before you start the posting process, open accounts by entering account names and numbers in the headings. Follow the order of the accounts in the chart of accounts.

ASSETS

101 Cash
111 Accounts Receivable
121 Supplies
141 Office Equipment
151 Art Equipment

LIABILITIES

202 Accounts Payable

OWNER'S EQUITY

301 Satillo Richey, Capital
302 Satillo Richey, Drawing

REVENUE

401 Fees Income

EXPENSES

511 Office Cleaning Expense
514 Rent Expense
517 Salaries Expense
520 Telephone Expense
523 Utilities Expense

DATE	TRANSACTIONS
Oct. 1	Satillo Richey invested \$60,000 cash in the business.
2	Paid October office rent of \$3,000; issued Check 1001.
5	Purchased desks and other office furniture for \$15,000 from Office Furniture Mart, Inc.; received Invoice 6704 payable in 60 days.
6	Issued Check 1002 for \$3,200 to purchase art equipment.
7	Purchased supplies for \$1,550; paid with Check 1003.
10	Issued Check 1004 for \$600 for office cleaning service.
12	Performed services for \$4,100 in cash and \$1,900 on credit. (Use a compound entry.)
15	Returned damaged supplies for a cash refund of \$400.
18	Purchased a computer for \$3,000 from Office Furniture Mart, Inc., Invoice 7108; issued Check 1005 for a \$1,750 down payment, with the balance payable in 30 days. (Use one compound entry.)
20	Issued Check 1006 for \$7,500 to Office Furniture Mart, Inc., as payment on account for Invoice 6704.
26	Performed services for \$4,400 on credit.
27	Paid \$325 for monthly telephone bill; issued Check 1007.
30	Received \$3,700 in cash from credit customers.
30	Mailed Check 1008 to pay the monthly utility bill of \$400.
30	Issued Checks 1009–1011 for \$8,000 for salaries.

Analyze: What is the balance of account 202 in the general ledger?

Recording correcting entries.

The following journal entries were prepared by an employee of Global Marketing Company who does not have an adequate knowledge of accounting.

◀ **Problem 4.3A**
Objective 4-4

INSTRUCTIONS

Examine the journal entries carefully to locate the errors. Provide a brief written description of each error. Assume that *Office Equipment* and *Office Supplies* were recorded at the correct values.

GENERAL JOURNAL					PAGE <u>3</u>	
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	2016					1
2	April	1 Accounts Payable		12 4 0 0 00		2
3		Fees Income			12 4 0 0 00	3
4		Performed services on credit				4
5						5
6		2 Cash		5 0 0 0 00		6
7		Telephone Expense			5 0 0 0 00	7
8		Paid for March telephone service, Check 1917				8
9						9
10						10
11		3 Office Equipment		7 2 0 0 00		11
12		Office Supplies		8 0 0 0 00		12
13		Cash			8 4 0 0 00	13
14		Purchased file cabinet and office supplies, Check 1918				14
15						15
16						16
17						17
18						18
19						19
20						20

Analyze: After the correcting journal entries have been posted, what effect do the corrections have on the company's reported assets?

Problem 4.4A**Objectives 4-1,
4-2, 4-3**Sage 50
Complete Accounting**Journalizing and posting transactions**

Four transactions for Farmers Market and Repair Shop that took place in November 2016 appear below, along with the general ledger accounts used by the company.

INSTRUCTIONS

Record the transactions in the general journal and post them to the appropriate ledger accounts. Be sure to number the journal page 1 and to write the year at the top of the Date column.

Cash	101	Equipment	151
Accounts Receivable	111	Accounts Payable	202
Office Supplies	121	Dennis Ortiz, Capital	301
Tools	131	Fees Income	401
Machinery	141		

DATE	TRANSACTIONS
Nov. 1	Dennis Ortiz invested \$55,000 in cash plus tools with a fair market value of \$2,000 to start the business.
2	Purchased equipment for \$2,050 and supplies for \$550 from Office Depot, Invoice 501; issued Check 100 for \$700 as a down payment with the balance due in 30 days.
10	Performed services for Hazel Sneed for \$2,900, who paid \$1,000 in cash with the balance due in 30 days.
20	Purchased machinery for \$4,000 from Craft Machinery, Inc., Invoice 709; issued Check 101 for \$1,500 in cash as a down payment with the balance due in 30 days.

Analyze: What liabilities does the business owe as of November 30?

Problem Set B

Recording transactions in the general journal.

The transactions listed below took place at Brown Building Cleaning Service during September 2016. This firm cleans commercial buildings for a fee.

◀ Problem 4.1B Objective 4-1

INSTRUCTIONS

Analyze and record each transaction in the general journal. Choose the account names from the chart of accounts shown below. Be sure to number the journal page 1 and to write the year at the top of the Date column.

ASSETS

- 101 Cash
- 111 Accounts Receivable
- 141 Equipment

LIABILITIES

- 202 Accounts Payable

OWNER'S EQUITY

- 301 Charles Brown, Capital
- 302 Charles Brown, Drawing

REVENUE

- 401 Fees Income

EXPENSES

- 501 Cleaning Supplies Expense
- 502 Equipment Repair Expense
- 503 Office Supplies Expense
- 511 Rent Expense
- 514 Salaries Expense
- 521 Telephone Expense
- 524 Utilities Expense

DATE	TRANSACTIONS
Sept. 1	Charles Brown invested \$50,000 in cash to start the business.
5	Performed services for \$6,000 in cash.
6	Issued Check 1000 for \$2,500 to pay the September rent.
7	Performed services for \$6,300 on credit.
9	Paid \$640 for monthly telephone bill; issued Check 1001.
10	Issued Check 1002 for \$675 for equipment repairs.
12	Received \$1,090 from credit clients.
14	Issued Checks 1003–1004 for \$12,500 to pay salaries.
18	Issued Check 1005 for \$800 for cleaning supplies.
19	Issued Check 1006 for \$950 for office supplies.
20	Purchased equipment for \$10,000 from Razor Equipment, Inc., Invoice 1012; issued Check 1007 for \$2,000 with the balance due in 30 days.
22	Performed services for \$4,800 in cash.
24	Issued Check 1008 for \$950 for the monthly electric bill.
26	Performed services for \$7,200 on account.
30	Issued Checks 1009–1010 for \$12,500 to pay salaries.
30	Issued Check 1011 for \$6,000 to Charles Brown to pay for personal expenses.

Analyze: How many transactions affected expense accounts?

Problem 4.2B**Objectives 4-1,
4-2, 4-3****► Journalizing and posting transactions.**

In June 2016, Carolyn Davis opened a photography studio that provides services to public and private schools. Her firm's financial activities for the first month of operations and the chart of accounts appear below.

INSTRUCTIONS

1. Journalize the transactions. Number the journal page 1 and write the year at the top of the Date column. Describe each entry.
2. Post to the ledger accounts. Before you start the posting process, open the accounts by entering the names and numbers in the headings. Follow the order of the accounts in the chart of accounts.

ASSETS

101 Cash
111 Accounts Receivable
121 Supplies
141 Office Equipment
151 Photographic Equipment

LIABILITIES

202 Accounts Payable

OWNER'S EQUITY

301 Carolyn Davis, Capital
302 Carolyn Davis, Drawing

REVENUE

401 Fees Income

EXPENSES

511 Office Cleaning Expense
514 Rent Expense
517 Salaries Expense
520 Telephone Expense
523 Utilities Expense

DATE	TRANSACTIONS
June 1	Carolyn Davis invested \$18,000 cash in the business.
2	Issued Check 1001 for \$1,250 to pay the June rent.
5	Purchased desks and other office furniture for \$7,500 from Desoto, Inc., received Invoice 5312, payable in 60 days.
6	Issued Check 1002 for \$1,900 to purchase photographic equipment.
7	Purchased supplies for \$538; paid with Check 1003.
10	Issued Check 1004 for \$400 for office cleaning service.
12	Performed services for \$1,300 in cash and \$1,300 on credit. (Use one compound entry.)
15	Returned damaged supplies; received a \$150 cash refund.
18	Purchased a computer for \$1,850 from Denison Office Supply, Invoice 304; issued Check 1005 for a \$500 down payment. The balance is payable in 30 days. (Use one compound entry.)
20	Issued Check 1006 for \$2,500 to Desoto, Inc., as payment on account for office furniture, Invoice 5312.
26	Performed services for \$2,000 on credit.
27	Paid \$580 for monthly telephone bill; issued Check 1007.
30	Received \$2,100 in cash from credit clients on account.
30	Issued Check 1008 to pay the monthly utility bill of \$575.
30	Issued Checks 1009–1011 for \$5,600 for salaries.

Analyze: What was the *Cash* account balance after the transaction of June 27 was recorded?

Recording correcting entries.

All the journal entries shown below contain errors. The entries were prepared by an employee of New Zealand Corporation who does not have an adequate knowledge of accounting.



Problem 4.3B

Objective 4-4

INSTRUCTIONS

Examine the journal entries carefully to locate the errors. Provide a brief written description of each error. Assume that *Office Equipment* and *Office Supplies* were recorded at the correct values.

GENERAL JOURNAL					PAGE <u>1</u>	
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	2016					1
2	Jan. 1	1 Accounts Payable		1 0 0 00		2
3		Fees Income			1 0 0 00	3
4		Performed services on credit				4
5						5
6	2	Cash		7 5 00		6
7		Telephone Expense			7 5 00	7
8		Paid for January telephone				8
9		service, Check 1601				9
10						10
11	3	Office Equipment		4 7 5 00		11
12		Office Supplies		1 0 5 00		12
13		Cash			5 5 0 00	13
14		Purchased file cabinet and				14
15		office supplies, Check 1602				15
16						16
17						17

Analyze: After the correcting journal entries have been posted, what effect do the corrections have on the reported assets of the company?

Problem 4.4B**Objectives 4-1,
4-2, 4-3****► Journalizing and posting transactions.**

Several transactions that occurred during December 2016, the first month of operation for Boynton's Accounting Services, follow. The company uses the general ledger accounts listed below.

INSTRUCTIONS

Record the transactions in the general journal (page 1) and post to the appropriate accounts.

Cash	101	Furniture & Fixtures	151
Accounts Receivable	111	Accounts Payable	202
Office Supplies	121	James Boynton, Capital	301
Computers	131	Fees Income	401
Office Equipment	141		

DATE	TRANSACTIONS
Dec. 3	James Boynton began business by depositing \$20,000 cash into a business checking account.
4	Purchased a computer for \$2,400 cash.
5	Purchased furniture and fixtures on account for \$6,500.
6	Purchased office equipment for \$2,150 cash.
10	Rendered services to client and sent bill for \$2,600.
11	Purchased office supplies for \$950 in cash.
15	Received invoice for furniture purchased on December 5 and paid it.

Analyze: Describe the activity for account 202 during the month.

Critical Thinking Problem 4.1

Financial Statements

Ned Turner is a new staff accountant for Sarah's Beauty Supply. He has asked you to review the financial statements prepared for April to find and correct any errors. Review the income statement and balance sheet that follow and identify the errors Turner made (he did not prepare a statement of owner's equity). Prepare a corrected income statement and balance sheet, as well as a statement of owner's equity, for Sarah's Beauty Supply.

Sarah's Beauty Supply	
Income Statement	
April 30, 2016	
<i>Revenue</i>	
<i>Fees Income</i>	36 6 0 0 00
<i>Expenses</i>	
<i>Salaries Expense</i>	9 0 0 0 00
<i>Rent Expense</i>	1 8 0 0 00
<i>Repair Expense</i>	3 0 0 0 00
<i>Utilities Expense</i>	1 7 0 0 00
<i>Drawing</i>	4 0 0 0 00
<i>Total Expenses</i>	17 7 0 0 00
<i>Net Income</i>	21 4 0 0 00

Sarah's Beauty Supply			
Balance Sheet			
Month Ended April 30, 2016			
<i>Assets</i>		<i>Liabilities</i>	
<i>Land</i>	12 0 0 0 00	<i>Accounts Receivable</i>	7 0 0 0 00
<i>Building</i>	40 0 0 0 00	<i>Owner's Equity</i>	
<i>Cash</i>	15 0 0 0 00	<i>Sarah Davis, Capital, April 1, 2016</i>	49 2 0 0 00
<i>Accounts Payable</i>	5 0 0 0 00	<i>Total Liabilities and Owner's Equity</i>	56 2 0 0 00
<i>Total Assets</i>	56 2 0 0 00		

Critical Thinking Problem 4.2

Start-Up Business

On June 1, 2016, Ashley Jackson opened the Leadership Talent Agency. He plans to use the chart of accounts given below.

INSTRUCTIONS

1. Journalize the transactions. Be sure to number the journal pages and write the year at the top of the Date column. Include a description for each entry.
2. Post to the ledger accounts. Before you start the posting process, open the accounts by entering the account names and numbers in the headings. Using the list of accounts below, assign appropriate account numbers and place them in the correct order in the ledger.
3. Prepare a trial balance.
4. Prepare the income statement.
5. Prepare a statement of owner's equity.
6. Prepare the balance sheet.

ACCOUNTS

Accounts Payable	Ashley Jackson, Drawing
Office Furniture	Recording Equipment
Accounts Receivable	Rent Expense
Advertising Expense	Salaries Expense
Cash	Supplies
Fees Income	Telephone Expense
Ashley Jackson, Capital	Utilities Expense

DATE	TRANSACTIONS
June 1	Ashley Jackson invested \$30,000 cash to start the business.
2	Issued Check 201 for \$1,800 to pay the June rent for the office.
3	Purchased desk and other office furniture for \$12,000 from Lowe's Office Supply, Invoice 5103; issued Check 202 for a \$2,000 down payment with the balance due in 30 days.
4	Issued Check 203 for \$1,500 for supplies.
6	Performed services for \$6,000 in cash.
7	Issued Check 204 for \$2,000 to pay for advertising expense.
8	Purchased recording equipment for \$15,000 from Special Moves, Inc., Invoice 2122; issued Check 205 for a down payment of \$5,000 with the balance due in 30 days.
10	Performed services for \$4,500 on account.
11	Issued Check 206 for \$3,000 to Lowe's Office Supply as payment on account.
12	Performed services for \$9,000 in cash.
15	Issued Check 207 for \$5,000 to pay an employee's salary.
18	Received payments of \$4,000 from credit clients on account.
20	Issued Check 208 for \$6,000 to Special Moves, Inc. as payment on account.
25	Issued Check 209 in the amount of \$350 for the monthly telephone bill.
27	Issued Check 210 in the amount of \$800 for the monthly electric bill.
28	Issued Check 211 to Ashley Jackson for \$4,000 for personal living expenses.
30	Issued Check 212 for \$5,000 to pay salary of an employee.

Analyze: How many postings were made to the **Cash** account?