

College Accounting

A Contemporary Approach

Fourth Edition

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Education

Chapter 4

The General Journal and the General Ledger

by
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Chapter 4 Learning Objectives

SECTION 1: The General Journal

4-1 Record transactions in the general journal.

4-2 Prepare compound journal entries.

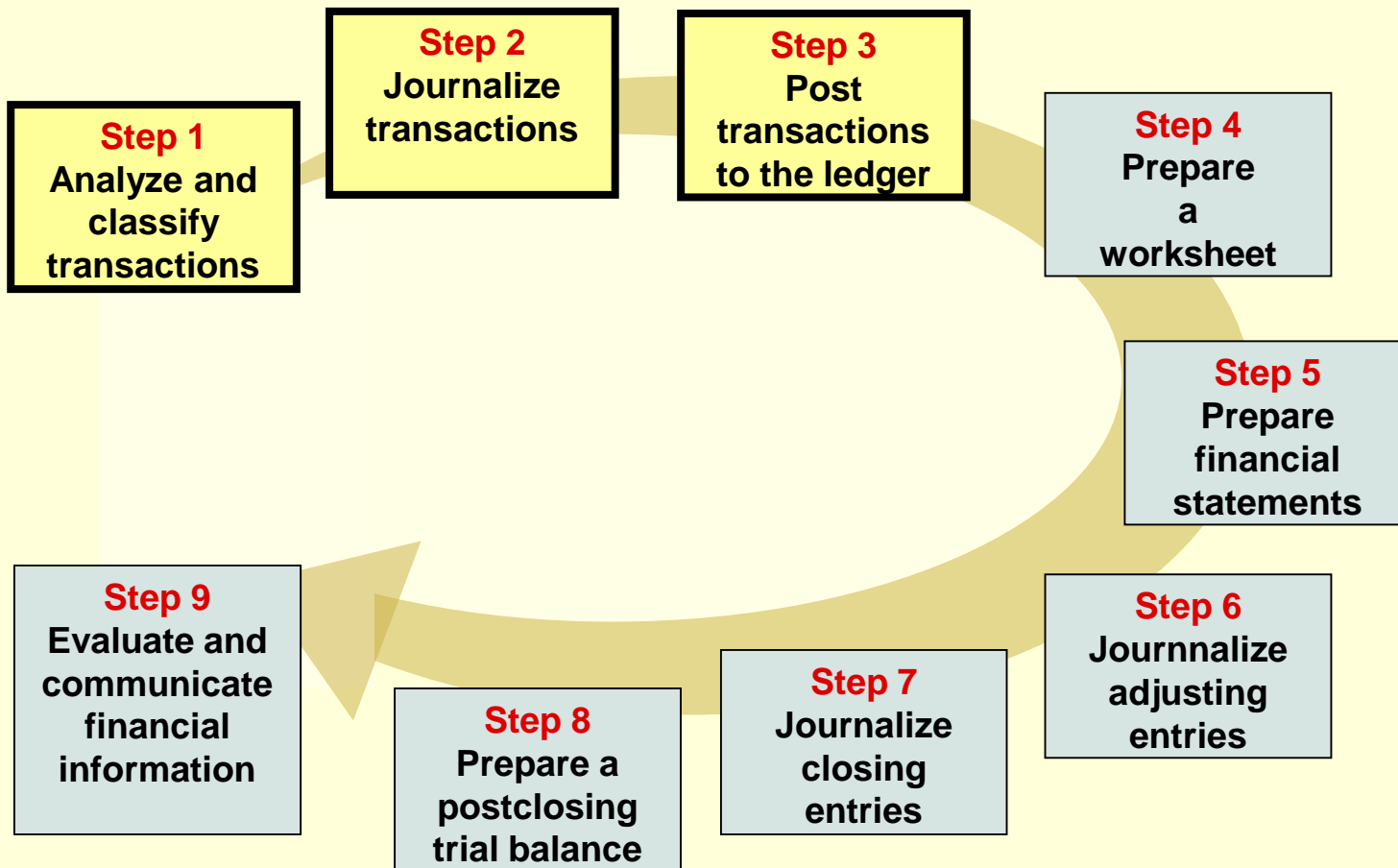
SECTION 2: The General Ledger

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.

The Accounting Cycle



Section 1: The General Journal

Learning Objective

4-1: Record transactions in the general journal.

Journal

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

Recording a Business Transaction

1. Analyze the financial event.

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

2. Apply the rules of debit and credit.

- Which account is debited? For what amount?
- Which account is credited? For what amount?

3. Make the entry in T-account form.

4. Record the complete entry in general journal form.

Let' look at one 

Transaction: On November 6, Trayton Eli withdrew \$100,000 from personal savings and deposited it in a new business checking account for Eli's Consulting Services.

GENERAL JOURNAL

PAGE 1

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
2019 Nov. 6	Cash Trayton Eli, Capital		100,000.00	100,000.00

Enter the account to be debited.

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

Enter the account to be credited.

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

Section 1, Objective 4-1: Record transactions in the general journal.

Transaction: On November 6, Trayton Eli withdrew \$100,000 from personal savings and deposited it in a new business checking account for Eli's Consulting Services.

DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT
2019					
Nov.	6	Cash Trayton Eli, Capital Investment by owner, Memo 01		100,000.00	100,000.00

Then enter a complete but concise description of the transaction.

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

Document numbers are part of the audit trail.

Cash Purchase of Equipment

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

GENERAL JOURNAL					PAGE	1
DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT	
Nov.	7	Equipment Cash Purchased equip., Check 1001		5,000.00	5,000.00	

Purchase of Equipment on Credit

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

GENERAL JOURNAL

PAGE 1

DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT
Nov.	10	Equipment Accounts Payable Purchased equipment on account from Office Plus, Inv. 2223, due in 60 days		6,000.00	6,000.00

Cash Purchase of Supplies

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

GENERAL JOURNAL					PAGE <u>1</u>
DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT
Nov.	28	Supplies Cash Purchased supplies, Ck. 1002		1,500.00	1,500.00

Payment to a Creditor

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

Remember, in the general journal, always enter debits before credits!

GENERAL JOURNAL

PAGE 1

DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT
Nov.	30	Accounts Payable Cash Paid on account, Office Plus, Invoice 2223, Check 1003		2,500.00	2,500.00

Recording a prepayment of rent

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

GENERAL JOURNAL

PAGE 1

DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT
Nov.	30	Prepaid Rent Cash Paid Dec. and Jan. rent in advance; Check 1004		8,000.00	8,000.00

Services performed for cash

Eli's Consulting performed services for \$36,000 in cash.

GENERAL JOURNAL

PAGE 2

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
2019 Dec. 31	Cash Fees Income Performed services for cash		36,000.00	36,000.00

Performed services on account

Eli's Consulting performed services on account for \$11,000.

GENERAL JOURNAL

PAGE 2

DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT
Dec. 31		Accounts Receivable		11,000.00	
		Fees Income			11,000.00
		Performed services on credit			

Received Cash From Credit Clients

Received \$6,000 in cash from a credit client on account.

GENERAL JOURNAL					PAGE	<u>2</u>
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT		
Dec. 31	Cash		6,000.00			
	Accounts Receivable			6,000.00		
	Received cash from credit clients on account					

Paid Salaries

Paid \$8,000 for salaries.

GENERAL JOURNAL

PAGE 2

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
Dec. 31	Salaries Expense		8,000.00	
	Cash			8,000.00
	Paid monthly salaries to employees, Checks 1005-1006			

Paid Utility Bill

Eli's Consulting paid \$650 in cash for a utility bill.

GENERAL JOURNAL					PAGE	<u>2</u>
DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT	
Dec. 31		Utilities Expense Cash Paid monthly bill for utilities, Check 1007		650.00	650.00	

Owner's Withdrawal

The owner, Trayton Eli, withdrew \$5,000 from the company.

GENERAL JOURNAL					PAGE	<u>2</u>
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT		
Dec. 31	Trayton Eli, Drawing Cash Owner withdrew cash for personal expenses, Check 1008		5,000.00	5,000.00		

Section 1: The General Journal

Learning Objective

4-2: Prepare Compound Journal Entries.

PREPARING COMPOUND ENTRIES

Some transactions require a **compound entry**—a journal entry that contains more than one debit or credit.

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.

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

GENERAL JOURNAL					
DATE		DESCRIPTION	POST. REF.		
Nov.	7	Equipment		5,000.00	
		Cash			2,500.00
		Accounts Payable			2,500.00
		Purchased equipment for cash and balance owed in 30 days, Check 1001			

Ledgers

- **The ledger contains a separate form for each account.**
- **The third step of the accounting cycle is posting to the ledger.**
- **The process of transferring data from the journal to the ledger is known as posting.**

Posting

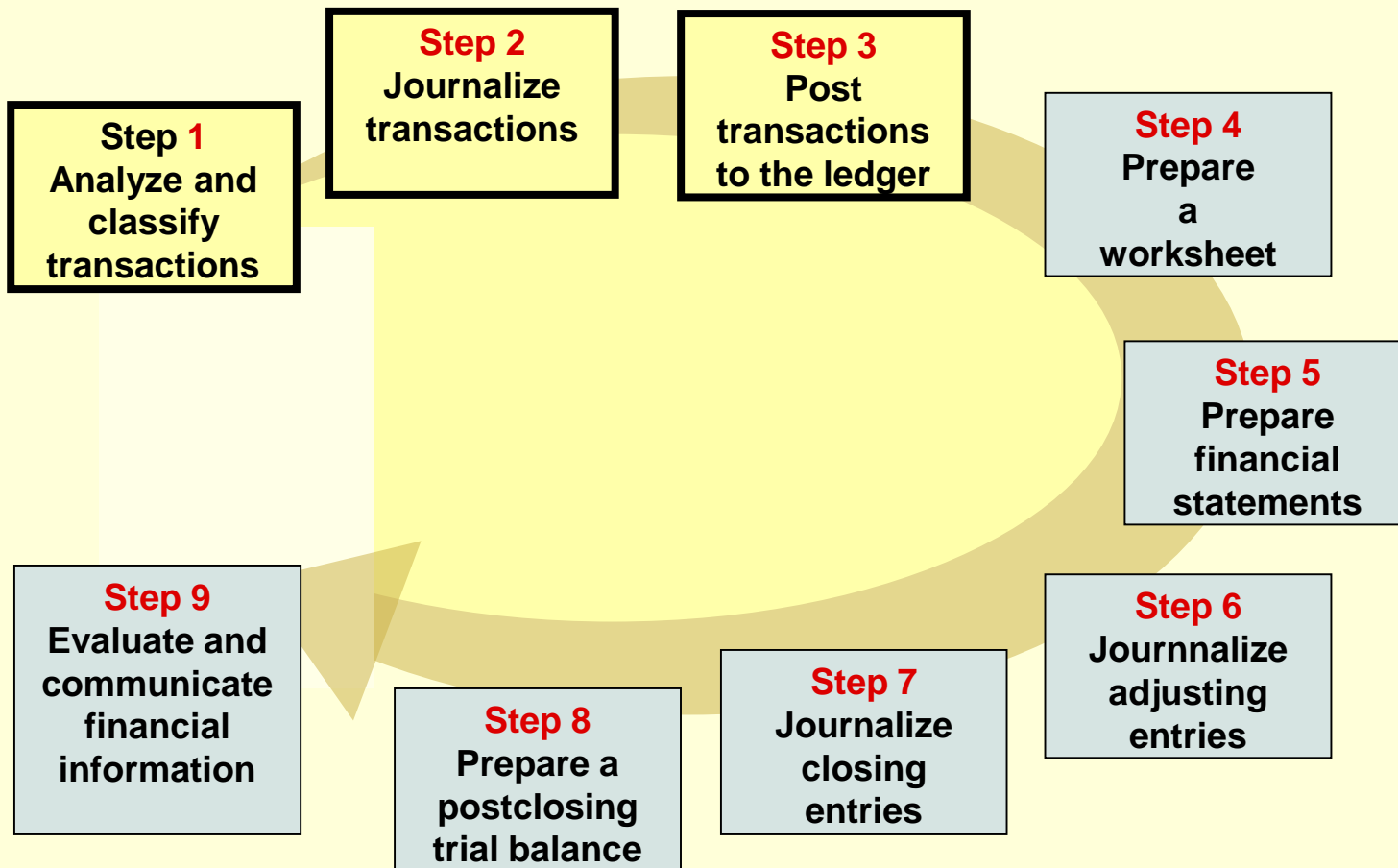
QUESTION:

What is posting?

ANSWER:

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

The Accounting Cycle



Ledger Account Forms

On the ledger account form shown below, notice the:

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

ACCOUNT			ACCOUNT NO.			
CASH			101			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
2019 Nov. 6		J1	100,000.00		100,000.00	

Section 2: The General Ledger

Learning Objective

4-3: Post journal entries to general ledger accounts.

Five Steps for Posting

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

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

GENERAL JOURNAL					PAGE <u>1</u>
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
2019 Nov. 7	Equipment Cash Purchased equipment Check 1001		5,000.00	5,000.00	

ACCOUNT <u>Equipment</u>		ACCOUNT NO. <u>141</u>				
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
2019 Nov. 7						

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

GENERAL JOURNAL					PAGE
DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT
2019 Nov.	7	Equipment Cash Purchased equipment Check 1001		5,000.00	5,000.00

ACCOUNT		<i>Equipment</i>					ACCOUNT NO.	
		POST. REF.	DEBIT	CREDIT	BALANCE			
DATE	DESCRIPTION				DEBIT	CREDIT		
2019 Nov. 7		J1						

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

GENERAL JOURNAL					PAGE <u>1</u>
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
2019 Nov. 7	Equipment Cash Purchased equipment Check 1001		5,000.00	5,000.00	

ACCOUNT <u>Equipment</u>		ACCOUNT NO. <u>141</u>				
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
2019 Nov. 7		J1	5,000.00			

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

GENERAL JOURNAL					PAGE	1
DATE	DESCRIPTION		POST. REF.	DEBIT	CREDIT	
2019 Nov. 7	Equipment Cash Purchased equipment Check 1001			5,000.00	5,000.00	

ACCOUNT			<i>Equipment</i>				ACCOUNT NO.		141
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		DEBIT	CREDIT	
2019 Nov. 7		J1	5,000.00			5,000.00			

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

GENERAL JOURNAL					PAGE	1
DATE	DESCRIPTION		POST. REF.	DEBIT	CREDIT	
2019 Nov.	7	Equipment Cash Purchased equipment Check 1001	141	5,000.00	5,000.00	

ACCOUNT		<i>Equipment</i>			ACCOUNT NO.		141
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
2019 Nov. 7		J1	5,000.00		5,000.00		

General Ledger Accounts

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

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

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

Section 2: The General Ledger

Learning Objective

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

Journal and Ledger Errors

Sometimes errors are made when recording transactions in the journal.

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

Correcting Journal and Ledger Errors

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

Error Correction BEFORE Posting

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.

Before Posting

GENERAL JOURNAL			PAGE <u> 1 </u>	
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
2019 Sept. 1	<div style="border: 2px solid red; border-radius: 50%; padding: 5px; display: inline-block;"> Shop Equipment Office Equipment </div> Cash Purchased equipment Check 1104		18,000.00	18,000.00

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

Error correction AFTER posting

- If the error is discovered *after* posting, a correcting 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.

Error Correction After Posting

On September 1 an automobile repair shop debited Office Equipment rather than Shop Equipment for \$18,000 by mistake.

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

A correcting journal entry must be journalized and posted.

Error Correction After Posting

GENERAL JOURNAL					PAGE	1
DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT	
2019	Sept. 1	Office Equipment	141	18,000.00		
		Cash	101		18,000.00	
		Purchased equipment				
		Check 2141				

This erroneous journal entry was posted to the general ledger.

Error Correction After Posting

GENERAL JOURNAL					PAGE <u>1</u>
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
2019 Oct. 1	Shop Equipment	151	18,000.00		
	Office Equipment	141		18,000.00	
	To correct error made on Sept. 1 when a purchase of shop equipment was recorded as office equipment				

- The correcting journal entry debits *Shop Equipment* and credits *Office Equipment* for \$18,000.
- The entry transfers \$18,000 out of the *Office Equipment* and into the *Shop Equipment* account.

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