

Topic 1 Review

Accounting Cycle - the complete sequence of accounting activities repeated in every accounting period.

Objectivity Principle - accounting data should be verifiable

Source Documents - business forms (papers) that give evidence of business transactions on a certain date.

Purchase invoice - a copy of an invoice, received by the buyer, to give evidence of the purchase made

Sales invoice - a source document that gives evidence of a sale

Remittance slip - a source document proving the receipt of a customer's cheque

Topic 2 Journalizing Transaction Data

Last chapter we learned how to record debits and credits for each business transaction directly into a T-account ledger

All business transactions could be recorded in accounts, but there are several disadvantages to recording debits and credits only in the ledger.

- We learned that each transaction has a debit and credit entry.
 - in at least two different accounts, but which ones?
 - If you had a large ledger you would have to search the entire ledger in order to match the debit entry to a credit entry for one complete business transaction.
-
- The accounts do not display, in any kind of order, a listing of all business transactions that occur on any given day.
 - It would be time consuming if you had to search the entire ledger to determine how many business transactions occurred on a given day.
-
- If an error is made in the debit or credit entry, the error would be difficult to locate quickly because the double entry has been recorded in two or more accounts.

How do we overcome these disadvantages?

Accounting systems make an accounting record known as the **journal** before the debits and credits are entered into the ledger accounts.

Journal: daily record of business transactions in debit and credit form: a book of original entry.

- like a diary
- for each day it shows the debits and credits analyzed from source documents
- the debits and credit will later be transferred to individual ledger accounts.


Debit/credits appear for the first time in date order, in the journal - also known as book of original entry.

There are different kinds of journals. We will work with the **General Journal** - a two column journal

It is a simple way of journalizing.

Journalizing: the process of analyzing transactions into debits and credits, and recording the results in a journal

Manual or Computerized using an Accounting Package

General JOURNAL 

DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT	PAGE
1						1
2						2
3						3
4						4
5						5
6						6
7						7
8						8
9						9
10						10
11						11
12						12
13						13
14						14
15						15
16						16
17						17
18						18
19						19
20						20
21						21
22						22
23						23
24						24
25						25
26						26
27						27
28						28
29						29
30						30
31						31
32						32

- we will begin by journalizing manually

For most business transactions to be recorded in the journal - you need 1 or more source documents to provide the accounting data.

Journalizing follows taking information from source documents and is the second step in the accounting cycle.

How are dates recorded ??

DATE	
19-1	
Nov. 9	

The year and month are written at the top of every journal page.

DATE	
19-1	
Nov. 9	

Only the day of the month is recorded for the next transaction on the same journal page.

	5
--	---

DATE	
19-1	
Nov. 25	

When the month changes on the same journal page, the new month is written.

	Dec. 2
--	--------

DATE	
19-1	
Dec. 30	

When the year changes on the same journal page, the new year and month are written.

	Jan. 7
--	--------

Record the date on the left side of the page of the ledger. The year and month are written at the top of every journal page. Only the day of the month is recorded for the next transaction on the same journal page. When the month changes on the same journal page, the new month is written. When the year changes on the same journal page, the new year and month are written.

Step 1: Write the date in the left column of the journal page. The year and month are written at the top of every journal page. Only the day of the month is recorded for the next transaction on the same journal page. When the month changes on the same journal page, the new month is written. When the year changes on the same journal page, the new year and month are written.

Step 2: Write the explanation of the transaction in the middle column of the journal page. The explanation should be written in full sentences and should include the date of the transaction. The explanation should be written in the middle column of the journal page. The explanation should be written in full sentences and should include the date of the transaction.

Step 3: Write the dollar amount of the transaction in the right column of the journal page. The dollar amount should be written in full dollars and cents. The dollar amount should be written in the right column of the journal page. The dollar amount should be written in full dollars and cents.

The credit entry is recorded on the right side of the ledger. The year and month are written at the top of every journal page. Only the day of the month is recorded for the next transaction on the same journal page. When the month changes on the same journal page, the new month is written. When the year changes on the same journal page, the new year and month are written.

Step 1: Write the date in the left column of the journal page. The year and month are written at the top of every journal page. Only the day of the month is recorded for the next transaction on the same journal page. When the month changes on the same journal page, the new month is written. When the year changes on the same journal page, the new year and month are written.

Step 2: Write the explanation of the transaction in the middle column of the journal page. The explanation should be written in full sentences and should include the date of the transaction. The explanation should be written in the middle column of the journal page. The explanation should be written in full sentences and should include the date of the transaction.

Step 3: Write the dollar amount of the transaction in the right column of the journal page. The dollar amount should be written in full dollars and cents. The dollar amount should be written in the right column of the journal page. The dollar amount should be written in full dollars and cents.

Understanding entries in the General Journal

- journals pages are numbered consecutively
 - the first column is the date of the transaction
 - usually taken from a source document,
 - the date in the journal is also the date of the transaction document.
 - if there is no source document, the date in the journal would become the date of the transaction.
 - a line is skipped after each entry. In a two-column journal, this spacing causes each entry to stand out clearly.
 - in the two column journal debits are recorded before credits
-
- **Opening Entry is the first entry to establish an account**
it identifies the accounts that open a set of accounting records for a beginning balance sheet of the new business
 - **Compound Entry is an entry that involves more than two accounts**
opening entry is an example of a compound entry
 - debits are listed first and the total of all debits must equal the total of all credits. The total is not shown in the two-column journal but should be checked mentally.

Date	Transaction	Source Document
Sept. 19— 30	Jane Emery began the firm J. Emery Real Estate with the following assets and liabilities: <u>Cash, \$60 000; Automobile, \$15 000; Furniture, \$8000; Office Equipment, \$7000; Bank Loan Payable, \$20 000; Accts. Pay./Bell Furniture Co., \$3000; Accts. Pay./Ryan Equipment Co., \$2000; Accts. Pay./Westtown Motors Ltd., \$5000.</u> The opening balance sheet was prepared. <i>capital?</i>	Opening balance sheet as at Sept. 30.
Oct. 1	J. Emery Real Estate buys more furniture for \$1000 from Enns Furniture Ltd., and issues Cheque No. 1 in payment.	Cheque record; purchase invoice marked <i>Paid</i>
3	J. Emery Real Estate buys more office equipment — two calculators and one typewriter — costing \$1200 from the Ryan Equipment Co. on 60 days' credit.	Purchase invoice
4	J. Emery Real Estate returns one calculator costing \$200 to Ryan Equipment Co. because the equipment arrived in damaged condition. The creditor has accepted the return.	Copy of letter, note, or return slip
5	J. Emery Real Estate makes out Cheque No. 2 for \$5000 to Westtown Motors Ltd.	Cheque record
11	Cheque No. 3 is issued in payment of a business telephone bill for \$40.	Cheque record
12	Cheque No. 4 is issued in payment of the monthly rent, \$1600.	Cheque record; landlord's bill marked <i>Paid</i>
15	Cheque No. 5 is issued for \$4000 to the Royal Bank of Canada in part payment of the bank loan payable.	Cheque record
16	Jane Emery decides to increase her investment by taking \$3000 from her personal savings account and depositing the cash into the firm's chequing account.	Memo; copy of bank deposit slip
18	Cheque No. 6 is issued to Public Utilities Commission, in payment of \$595 utilities bill.	Cheque record; utilities bill marked <i>Paid</i>
20	\$13 400 cash is received for commissions earned buying and selling real estate. (The invoice slips are numbered 0001, 0002, 0003, ...)	Individual sales invoices; copy of bank deposit slip.

Sept 30

$$\begin{array}{r} \text{Assets} \\ 60000 \\ 15000 \\ 8000 \\ 7000 \\ \hline 90000 \end{array} = \begin{array}{r} \text{Liabilities} \\ 20000 \\ 3000 \\ 2000 \\ 5000 \\ \hline 30000 \end{array} + \underline{\underline{60000}} \text{ (Capital)}$$

GENERAL JOURNAL					Page
DATE	ACCOUNT TITLE AND EXPLANATION	POST. REF.	DEBIT	CREDIT	
Sept 30	Cash		6,000.00		
	Automobile		1,500.00		
	Furniture		800.00		
	Office Equipment		700.00		
	Bank Loan Payable			2,000.00	
	Accts. Pay. / Bell Furniture Co.			300.00	
	Accts. Pay. / Ryan Equipment Co.			200.00	
	Accts. Pay. / Westown Motors Ltd.			500.00	
	J. Emery, Capital			6,000.00	
	To record the opening balance sheet into accounts				
Oct 1	Furniture		1,000.00		
	Cash			1,000.00	
	Cheque No. 1 to Erns Furniture Ltd. for additional furniture.				
3	Office Equipment		1,200.00		
	Accts. Pay. / Ryan Equipment Co. 2 calculators and 1 typewriter on 60 day's credit.			1,200.00	
4	Accts. Pay. / Ryan Equipment Co.		200.00		
	Office Equipment			200.00	
	Returned 1 calculator received in damaged condition.				
5	Accts. Pay. / Westown Motors Ltd.		500.00		
	Cash			500.00	
	Cheque No. 2 on account.				
11	Telephone Expense		4.00		
	Cash			4.00	
	Cheque No. 3 to Bell Canada.				

first column is the date

skip lines between transactions

number consecuti

GENERAL JOURNAL					Page 2
DATE	ACCOUNT TITLE AND EXPLANATION	POST. REF.	DEBIT	CREDIT	
14- Nov. 12	Rent Expense Cash Cheque No. 4 for monthly rent.		1600.00	1600.00	
15	Bank Loan Payable Cash Cheque No. 5 to The Royal Bank of Canada in part payment of demand loan.		4000.00	4000.00	
16	Cash J. Emery, Capital Additional Investment.		3000.00	3000.00	
18	Utilities Expense Cash Cheque No. 6 to Public Utilities Commission.		595.00	595.00	
20	Cash Commissions Earned Invoices 0001, 0002, 0003, and 0004.		1340.00	1340.00	
30	J. Emery, Drawing Cash Issued Cheque No. 7 to owner for personal use.		200.00	200.00	
31	Cash Commissions Earned Invoices 0005 and 0006.		1340.00	1340.00	

GENERAL JOURNAL					Page 3
DATE	ACCOUNT TITLE AND EXPLANATION	POST. REF.	DEBIT	CREDIT	
Oct 31	Salaries Expense		450.00		
	Cash			450.00	
	Cheque No. 8 for \$2,250 to Wendy Thomas; Cheque No. 9 for \$2,250 to Jim Trafford				
31	Accts. Rec. / Pat Rogers		60.00		
	Accts. Rec. / R. Scobie		40.00		
	Accts. Rec. / Shannon Development Co.		150.00		
	Commissions Earned			250.00	HJK
				240.00	
	Sales Invoices issued as follows: No. 00007 to Pat Rogers; No. 00008 to R. Scobie; No. 00009 to Shannon Development Co. Terms on all invoices: 30 days.				
31	Advertising Expense		20.00		
	Accts. Pay. / The City Record			20.00	
	Advertising bill, terms given: net 30 days				

Examining Advantages of the Journal

- a journal lists all the financial events by date
- if you need to find something in the future, all you need is the transaction date
- you can compare the volume of transactions in date order
- equality of debits and credits can be checked at a glance
- errors can be discovered before the transactions are posted to the ledger
- also provides explanation of the transaction
- factual proof of financial events in case such proof should be required in a court of law, or if any source document should be lost or destroyed.

Homework

P 4-4

GENERAL JOURNAL

Page 1

DATE	ACCOUNT TITLE AND EXPLANATION	POST. REF.	DEBIT	CREDIT
19-- Nov. 1	Cash		2500 00	
	Office Supplies		1450 00	
	Accounts Payable/G. Health Suppliers			800 00
	J. Edgar, Capital			3150 00
	<i>Opening entry of J. Edgar Consulting Services.</i>			
2	Office Supplies		150 00	
	Cash			150 00
	<i>Bought additional office supplies; issued cheque 001.</i>			
4	Accounts Receivable/A. Lee		450 00	
	Consulting Fees Earned			450 00
	<i>Performed consulting services. Issued sales invoice 01 and extended 30 days' credit.</i>			
6	Cash		950 00	
	Consulting Fees Earned			950 00
	<i>Services for Tankers Ltd. Sales invoice 02 for cash.</i>			
7	Telephone Expense		67 00	
	Cash			67 00
	<i>Issued cheque 002 to Bell Telephone.</i>			

10	Rent Expense	700 00	
	Cash		700 00
	<i>Issued Cheque 003 for monthly rent.</i>		
12	Accounts Payable G. Health Suppliers	200 00	
	Cash		200 00
	<i>Issued cheque 004 in partial payment of account.</i>		
15	Cash	500 00	
	Consulting Fees Earned		500 00
	<i>Performed consulting services. Sales invoice 03 for cash.</i>		
16	Office Equipment	3000 00	
	Accounts Payable D. Moyer Computers Ltd.		3000 00
	<i>Acquired a Macintosh SE® computer for the office.</i>		
17	Cash	5000 00	
	Bank Loan Payable		5000 00
	<i>Borrowed from the bank and deposited the amount into the business's bank account.</i>		

P 4-4 (continued)

GENERAL JOURNAL

Page 2

DATE	ACCOUNT TITLE AND EXPLANATION	POST. REF.	DEBIT	CREDIT
19-- Nov. 20	Accounts Receivable/Lambton Industries Inc. Consulting Fees Earned..... Performed consulting services. Issued sales invoice 04 and extended 30 days' credit.		1200 00	1200 00
23	Advertising Expense Cash Purchased advertising in local paper. Issued cheque 005.		350 00	350 00
25	Utilities Expense Cash Paid monthly utilities bill to PUC. Issued cheque 006.		440 00	440 00
30	Cash Consulting Fees Earned..... Performed services and issued sales invoice 05 for cash.		3200 00	3200 00
30	J. Edgar, Drawing..... Cash J. Edgar withdrew cash for personal use. Issued cheque 007.		250 00	250 00

Note: Student entries on Page 1 and Page 2 may differ from the above solution. It is most important that complete double entries appear on the same page.