

Chapter 3: Journalizing Transactions: Chapter Overview

Chapter Overview

Journalizing Transactions: Chapter Objectives

Journalizing Transactions: Accounting in the Real World

Journalizing Transactions: Key Terms

Journalizing Transactions: Chapter Objectives

Learning Objectives

After studying Chapter 3, in addition to defining key terms, you will be able to:

L01 Define what a journal is and explain why it is used to record transactions.

L02 Compare and contrast different types of source documents.

L03 Identify the four parts of a journal entry.

L04 Analyze and record cash transactions using source documents.

L05 Analyze and record transactions for buying and paying on account.

L06 Analyze and record transactions that affect owner's equity.

L07 Analyze and record sales and receipt of cash on account.

L08 Demonstrate when to end and how to start a new journal page.

L09 Identify and correct errors using standard accounting practices.

Journalizing Transactions: Accounting in the Real World

iTunes

Is digital music catching on? To answer this question, all you have to do is look at the statistics. According to its website, iTunes offers more than 11 million songs for sale and has sold over 10 billion downloads.

Why is an online music store like iTunes so successful? There are many reasons. iTunes not only sells downloads, but it also provides a free player which can be used to manage many tasks.

iTunes' customers can take their music with them, wherever they go. They don't have to drive to the mall or wait for a CD in the mail. Songs can be downloaded at any time—24 hours a day, 7 days a week. Customers can preview a song before they buy it, which increases their satisfaction rate.

Since its customers don't have to drive to a store and don't physically purchase an item, iTunes is also friendly to the environment. Less driving helps the environment. In addition, no CDs means no packaging, CDs, or CD cases in the trash.

What if an iTunes customer doesn't like the order of songs on an album? iTunes lets one organize songs

in any order. iTunes also allows listeners to enjoy tunes on many portable devices. Clients can download movies and college lectures as well as music.

Critical Thinking



1. When iTunes sells a song or movie, it must record the transaction in accounts. Which accounts might iTunes use when it sells a song for cash?
2. What accounts might iTunes use when it has shipping costs on account?



Journalizing Transactions: Key Terms

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

Lesson 3-1: Recording Transactions and the General Journal

Journals and Journalizing L01

A General Journal

Source Documents L02

Other Source Documents

Preparing Journal Entries

Received Cash from Owner as an Investment L03

Paid Cash for Supplies

End of Lesson Review

L01 Define what a journal is and explain why it is used to record transactions.

L02 Compare and contrast different types of source documents.

L03 Identify the four parts of a journal entry.

Journals and Journalizing L01

In Chapter 2, transactions were analyzed into debit and credit parts using the accounting equation and T accounts. Transactions could be recorded this way in a business. However, as the number of accounts

increases, the accounting equation would become very wide and difficult to use. A form for recording transactions in chronological order is called a **journal**. Most companies choose to use a journal to record transactions. Besides being more manageable, a journal also provides a more permanent record of the transactions of a business. Recording transactions in a journal is called **journalizing**.

There are several kinds of journals. 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 records up to date, businesses usually record transactions in their journals every day.

A General Journal

Using a Journal

Delgado Web Services uses a general journal. The general journal has two amount columns in

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

which all kinds of entries can be recorded. The columns in Delgado Web Services' 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.

Chronological Record

Transactions are recorded in a journal in order by date. All information about a transaction is recorded in one place. This makes the information for a specific transaction easy to locate.

Double-Entry Accounting

Information for each transaction recorded in a journal is called an **entry**. 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 and the credit parts are recorded, reflecting the dual effect of each transaction. Double-entry accounting assures that debits equal credits.

Source Documents LO2

A business paper from which information is obtained for a journal entry is called a **source document**. Different types of source documents are used for different kinds of transactions. Each transaction is described by a source document that proves that the transaction did occur. For example, Delgado Web Services prepares a check stub for each cash payment made. The check stub describes information about

the cash payment 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. Delgado Web Services uses five source documents: checks, sales invoices, receipts, memorandums, and calculator tapes.

NO. 1	\$ 165.00		
Date	January 2	20	--
To	Eastside Supplies		
For	Supplies		
BALANCE BROUGHT FORWARD		0	00
AMOUNT DEPOSITED	7	2	00
Subtotal	2,000.00		
OTHER:			
Subtotal	2,000.00		
AMOUNT THIS CHECK	165.00		
BALANCE CARRIED FORWARD	1,835.00		

DELGADO WEB SERVICES		NO. 1	98-2150 929
25402 Rimrock Road Billings, MT 59102-1820		January 2	20 --
PAY TO THE ORDER OF <u>Eastside Supplies</u>		\$ 165.00	
<u>One hundred sixty-five and ^{no}/₁₀₀</u>			DOLLARS
Billings National Bank Billings, MT			
FOR	<u>Supplies</u>	<u>Michael Delgado</u>	
⑆09292⑆508⑆ 70646663⑆⑆⑆			

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. Delgado Web Services makes all cash payments by check. The checks are prenumbered to help account for all checks. Delgado Web Services' record of information on a check is the check stub prepared at the same time as the check.

Procedures for preparing checks and check stubs are described in Chapter 5.

Sales Invoices

DELGADO WEB SERVICES 25402 Rimrock Road Billings, MT 59102-1820		Sold to:	<u>Main Street Variety</u> <u>3900 Grand Avenue</u> <u>Billings, MT 59102</u>	No. <u>1</u> Date <u>1/12/--</u> Terms <u>30 days</u>
Description				Amount
Web Site Design				\$500.00
Total				\$500.00

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, the price, and the terms of sale is called an **invoice**. Terms of sale could include the due date of the invoice and any penalties for late payment. 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 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 prenumbered in sequence to help account for all sales invoices.



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.

Other Source Documents

No. 1	Receipt No. 1
Date <u>January 2</u> 20 --	<u>January 2</u> 20 --
From <u>Michael Delgado</u>	Rec'd from <u>Michael Delgado</u>
For <u>Investment</u>	For <u>Investment</u>
	<u>Two thousand and no/100</u> Dollars
\$ <u>2,000</u> <u>00</u>	Amount \$ <u>2,000</u> <u>00</u>
	<u>Damian Delgado</u> Received By
	DELGADO WEB SERVICES 25402 Rimrock Road Billings, MT 59102-1820

Receipts

A business form giving written acknowledgement for cash received is called a **receipt**. When cash is received from sources other than sales, Delgado Web Services 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]

Memorandums

A form on which a brief message is written to describe a transaction is called a **memorandum**. A memorandum is used when there is no other source document for a transaction. A memorandum is also used when an additional explanation is needed about a transaction. [CONCEPT: Objective Evidence] Delgado Web Services' memorandums are prenumbered to help account for all memorandums. A brief note is written on the memorandum to describe the transaction.

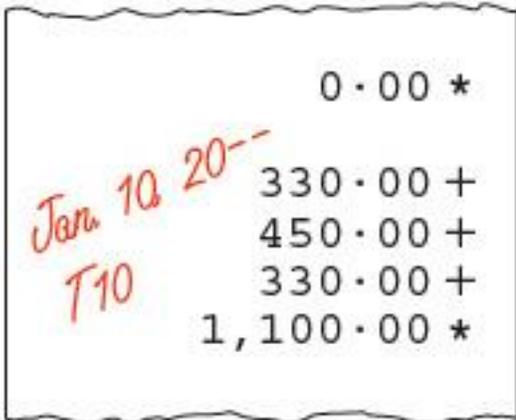
DELGADO WEB SERVICES		No. 1
MEMORANDUM		
25402 Rimrock Road Billings, MT 59102-1820		
<u>Bought supplies on account from Canyon Office Supplies \$220.00</u>		
Signed: <u>Michael Delgado</u>	Date: <u>January 5, 20--</u>	

Calculator Tapes

Delgado Web Services collects cash at the time services are rendered to customers. At the end of each day, Delgado Web Services 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 here.

Delgado Web Services dates and numbers each calculator tape. For example, in the illustration, the number T10 indicates that the tape is for the tenth day of the month.



Preparing Journal Entries

A company's journal is sometimes referred to as a "book of original entry." This means that the journal entry is the first place a business transaction becomes a permanent part of a company's accounting system.

Because the journal is a permanent record, accountants usually record journal entries in ink rather than pencil. When an entry in an amount column is an even dollar amount, "00" should be added to the cents column. If the column were left blank instead, there might be a question about whether an amount was omitted.

Received Cash from Owner as an Investment LO3

GENERAL JOURNAL										PAGE 1
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT			CREDIT			
1 Jan. 2	Cash	R1		2	0	0	0	0		1
2	Michael Delgado, Capital								2	2
3										3

A journal 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.

January 2. Received cash from owner as an investment, \$2,000.00. Receipt No. 1.

Cash	
↑	2,000.00
Michael Delgado, Capital	
	↑ 2,000.00

The source document for this transaction is Receipt No. 1. [CONCEPT: Objective Evidence] The analysis of this transaction is shown in the T accounts. The asset account, Cash, increases by a debit, \$2,000.00. The owner's capital account, Michael Delgado, Capital,

increases by a credit, \$2,000.00.

Debits must equal credits for each entry in a journal. After the entry is journalized, the equality of debits and credits is verified. For this entry, the total debits, \$2,000.00, equal the total credits, \$2,000.00. The use of the Post. Ref. column is described in Chapter 4.

Journalizing Cash Received from Owner as an Investment

1 Date. Write the date, 20-- Jan. 2, in the Date column. This entry is the first one on this journal page. Therefore, write both the year and the month for this entry. Do not write either the year or the month again on the same page.

2 Debit. Write the title of the account debited, Cash, in the Account Title column. Write the debit amount, \$2,000.00, in the Debit column.

3 Credit. On the next line, indented about one centimeter, write the title of the account credited, Michael Delgado, Capital, in the Account Title column. This account title is indented to indicate that this account is credited. Write the credit amount, \$2,000.00, 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. Receipt No. 1 is filed in case more details about this transaction are needed.)



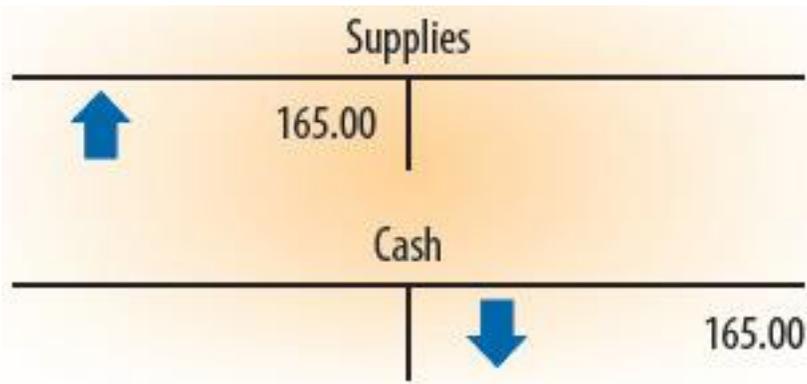
Dollars and cents signs and decimal points are not used when writing amounts on ruled accounting paper. Sometimes a color tint or a heavy vertical rule is used on printed accounting paper to separate the dollars and cents columns.

Paid Cash for Supplies

GENERAL JOURNAL							PAGE 1
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
3	2	Supplies	C1	1 6 5 00		3	
4		Cash			1 6 5 00	4	

Diagram annotations: 1 Date (points to '2'), 2 Debit (points to 'Supplies'), 3 Credit (points to 'Cash'), 4 Source Document (points to 'C1').

January 2. Paid cash for supplies, \$165.00. Check No. 1.



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 increases by a debit, \$165.00. The asset account Cash decreases by a credit, \$165.00.

Journalizing Cash Paid for Supplies

1 Date. Write the date, 2, in the Date column. This is not the first entry on the journal page. Therefore, do not write the year and month for this entry.

2 Debit. Write the title of the account debited, Supplies, in the Account Title column. Write the debit amount, \$165.00, in the Debit column.

3 Credit. On the next line, indented about one centimeter, write the title of the account credited, Cash, in the Account Title column. Write the credit amount, \$165.00, in the Credit column.

4 Source document. On the first line of 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, \$165.00, equal the total credits, \$165.00.



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.

End of Lesson Review

L01 Define what a journal is and explain why it is used to record transactions.

L02 Compare and contrast different types of source documents.

L03 Identify the four parts of a journal entry.

Terms Review

journal

source document

receipt

journalizing

check

memorandum

entry

invoice

double-entry accounting

sales invoice

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 3-1

Journalizing entries in a general journal

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

Norma Dirks owns Dirks Copy Center, which uses the following accounts.

Cash	Norma Dirks, Capital
Accts. Rec.—K. Spah	Norma Dirks, Drawing
Supplies	Sales
Prepaid Insurance	Rent Expense
Accts. Pay.—Supply Mart	Utilities Expense

Transactions:

Apr. 1. Received cash from owner as an investment, \$2,800.00. R1.

2. Paid cash for supplies, \$415.00. C1.

Journalize each transaction completed during April of the current year. Use page 1 of the journal. Source documents are abbreviated as follows: check, C; receipt, R. Save your work to complete Work Together 3-2.

On Your Own 3-1

Journalizing entries in a general journal

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

Michelle Sullivan owns Sullivan's Service Center, which uses the following accounts.

Cash	Michelle Sullivan, Capital
Accts. Rec.—G. Stratton	Michelle Sullivan, Drawing
Supplies	Sales
Prepaid Insurance	Advertising Expense
Accts. Pay.—Bayside Supplies	Miscellaneous Expense

Rent Expense

Transactions:

June 2. Received cash from owner as an investment, \$3,200.00. R1.

3. Paid cash for supplies, \$600.00. C1.

Journalize each transaction completed during June of the current year. Use page 1 of the journal. Source documents are abbreviated as follows: check, C; receipt, R. Save your work to complete On Your Own 3-2.

3-1 Application Problem: Journalizing Transactions in a General Journal LO3, 4

D & M Company uses the following accounts.

Cash	Dennis Marier, Drawing
Accounts Receivable—Scott Company	Sales
Accounts Payable—Supply Mart	Miscellaneous Expense
Supplies	Rent Expense
Prepaid Insurance	Utilities Expense
Dennis Marier, Capital	

Transactions:

Mar. 1. Received cash from owner as an investment, \$5,000.00. R1.

4. Paid cash for supplies, \$1,500.00. C1.

Instructions:

3. Journalize the transactions completed during March of the current year. Use page 1 of the journal given in the Working Papers. Source documents are abbreviated as follows: check, C; receipt, R. Save your work to complete Problem 3-2.