

4 Journalizing Transactions

AFTER STUDYING CHAPTER 4, YOU WILL BE ABLE TO:

1. Define accounting terms related to journalizing transactions.
2. Identify accounting concepts and practices related to journalizing transactions.
3. Record in a five-column journal transactions to set up a business.
4. Record in a five-column journal transactions to buy insurance for cash and supplies on account.
5. Record in a five-column journal transactions that affect owner's equity and receiving cash on account.
6. Prove and rule a five-column journal and prove cash.

JOURNALS AND JOURNALIZING

As described in Chapter 3, transactions are analyzed into debit and credit parts before information is recorded. A form for recording transactions in chronological order is called a **journal**. Recording transactions in a journal is called **journalizing**.

Transactions could be recorded in the accounting equation. However, most companies wish to create a more permanent record by recording transactions in a journal.

Each business uses the kind of journal that best fits the needs of that business. The nature of a business and the number of transactions to be recorded determine the kind of journal to be used.

The word *journal* comes from the Latin *diurnalis*, meaning daily. Most businesses conduct transactions every day. To keep from getting overloaded, the businesses will make entries in their accounting journals every day.

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The Small Business Administration (SBA) has programs that offer free management and accounting advice to small business owners. The SBA sponsors various workshops and publishes a variety of booklets for small business owners.

TERMS PREVIEW

journal

journalizing

special amount
column

general amount
column

entry

double-entry
accounting

source document

check

invoice

sales invoice

receipt

memorandum

proving cash

ACCOUNTING IN YOUR CAREER



HIGH STANDARDS FOR JOURNALIZING

Sandra Huffman has worked for Marquesa Advertising for 30 days as an accounting clerk, a position for which the company owner, Ramona Marquesa, hired her. She journalizes all transactions, about 50 per day, handles all incoming and outgoing mail, prepares and files all source documents, and performs other duties as assigned.

One day Ramona asked to see the journal. Sandra handed the journal to Ramona, who scanned a few pages while Sandra fidgeted in her chair. Sandra didn't know exactly what to expect, but she knew she had not done as good a job with journalizing transactions as she should have.

Ramona then sighed and said, "I'm concerned about this journal, Sandra. You have recorded all transactions in pencil, and I notice numerous erasures. I don't know if the debits equal the credits, but I can see right away that this one transaction for \$20,000 should have been for \$2,000. Some of the dates are missing and some are out of order. What do you suggest we do to turn this situation around?"

After apologizing, Sandra thanked Ramona for giving her the chance to improve her work. She explained that she realized she had not been giving the journal the priority it required and went on to describe how she would improve her performance in the future.

Critical Thinking:

1. What do you think Sandra should say about the journal to demonstrate that she knows it is important?
2. What specific improvements do you think Sandra should make?

4-1 Journals, Source Documents, and Recording Entries in a Journal

A FIVE-COLUMN JOURNAL

JOURNAL										PAGE				
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	1		2		3		4		5		
				GENERAL		SALES CREDIT		CASH						
				DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT					
1													1	
2													2	
3													3	

Using a Journal

Encore Music uses a journal that has five amount columns: General Debit, General Credit, Sales Credit, Cash Debit, and Cash Credit. A journal amount column headed with an account title is called a **special amount column**. These columns are used for frequently occurring transactions. For example, most of Encore Music's transactions involve receipt or payment of cash. A large number of the transactions involve receipt of cash from sales. Therefore, Encore Music uses three special amount columns in its journal: Sales Credit, Cash Debit, and Cash Credit. Using special amount columns eliminates writing an account title in the Account Title column and saves time.

A journal amount column that is not headed with an account title is called a **general amount column**. In Encore Music's journal, the General Debit and General Credit columns are general amount columns.

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, making 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 on the business's records. Double-entry accounting assures that debits equal credits.

Source Documents

A business paper from which information is obtained for a journal entry is called a **source document**. Each transaction is described by a source document that proves that the transaction did occur. For example, Encore Music prepares a check stub for each cash payment made. The check stub describes information about the cash payment transaction for which the check is prepared. The accounting concept, *Objective Evidence*, is applied when a source document is prepared for each transaction. (**CONCEPT: Objective Evidence**)

A transaction should be journalized only if it actually occurs. The amounts recorded must be accurate and true. Nearly all transactions result in the preparation of a source document. Encore Music uses five source documents: checks, sales invoices, receipts, calculator tapes, and memorandums.

CHECKS

NO. 1	\$ 1,577.00	NO. 1	63-109 631
Date	August 3	20	--
To	Quick Clean Supplies Co.		
For	Supplies		
BAL. BRO'T. FOR'D.	0	00	
AMT. DEPOSITED	87	10,000	00
SUBTOTAL	10,000	00	
OTHER:			
SUBTOTAL	10,000	00	
AMT. THIS CHECK	1,577	00	
BAL. CAR'D. FOR'D.	8,423	00	

Encore Music		NO. 1	63-109 631
530 Anoka Avenue Tampa, FL 33601		August 3	20 --
PAY TO THE ORDER OF		Quick Clean Supplies Co.	\$1,577.00
		One thousand five hundred seventy-seven and ^{no} / ₁₀₀	DOLLARS
Peoples national bank		For Classroom Use Only	
Tampa, FL 33602			
FOR		Supplies	Barbara Treviño
⑆063101098⑆ 43⑈452119⑈			

A business form ordering a bank to pay cash from a bank account is called a **check**. The source document for cash payments is a check. Encore Music makes all cash payments by check. The checks are prenumbered to help Encore Music account for all checks. Encore Music's

record of information on a check is the check stub prepared at the same time as the check. A check and check stub prepared by Encore Music are shown in the illustration above.

Procedures for preparing checks and check stubs are described in Chapter 6.

SALES INVOICES

Encore Music		Sold to:		Kids Time	No. 1
530 Anoka Avenue Tampa, FL 33601		405 Michigan Avenue		Date	8/12/--
		Tampa, FL 33619		Terms	30 days


Description	Amount
Individual lessons on Aug. 12	\$200.00
Total	\$200.00

When services are sold on account, the seller prepares a form showing information about the sale. A form describing the goods or services sold, the quantity, and the price is called an **invoice**. An invoice used as a source document for recording a sale on account is called a **sales invoice**. A sales invoice is also referred to as a sales ticket or a sales slip.

A sales invoice is prepared in duplicate. The original copy is given to the customer. The copy is used as the source document for the sale on account transaction. (*CONCEPT: Objective Evidence*) Sales invoices are numbered in sequence.



OTHER SOURCE DOCUMENTS

No. 1 Date <u>August 1,</u> 20 <u>--</u> From <u>Barbara Treviño</u> For <u>Investment</u> \$ 10,000 00	Receipt No. 1 <u>August 1,</u> 20 <u>--</u> Rec'd from <u>Barbara Treviño</u> For <u>Investment</u> <u>Ten thousand and no/100</u> Dollars Amount \$ 10,000 00 Encore Music  530 Anoka Avenue Tampa, FL 33601 Received By <u>Barbara Treviño</u>
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Receipts

A business form giving written acknowledgement for cash received is called a **receipt**. When cash is received from sources other than sales, Encore Music prepares a

receipt. The receipts are prenumbered to help account for all of the receipts. A receipt is the source document for cash received from transactions other than sales. (*CONCEPT: Objective Evidence*)

MEMORANDUM	 Encore Music 530 Anoka Avenue Tampa, FL 33601
No. 1	
<i>Bought supplies on account from Ling Music Supplies, \$2,720.00</i>	
Signed: <u>Barbara Treviño</u> Date: <u>August 7, 20--</u>	

Memorandums

A form on which a brief message is written describing a transaction is called a **memorandum**. When no other source document is prepared for a transaction, or when an additional explanation is needed about a transaction, Encore Music prepares a memorandum. (*CONCEPT: Objective Evidence*) Encore Music's memorandums are prenumbered to help account for all of the memorandums. A brief note is written on the memorandum to describe the transaction.

Calculator Tapes

Encore Music collects cash at the time services are rendered to customers. At the end of each day, Encore Music uses a printing electronic

calculator to total the amount of cash received from sales for that day. By totaling all the individual sales, a single source document is produced for the total sales of the day. Thus, time and space are saved by recording only one entry for all of a day's sales. The calculator tape is the source document for daily sales. (*CONCEPT: Objective Evidence*) A calculator tape used as a source document is shown.

0.00 *
150.00 +
65.00 +
110.00 +
325.00 *

Aug 12, 20--
T12

Encore Music dates and numbers each calculator tape. For example, in the illustration, the number, *T12*, indicates that the tape is for the twelfth day of the month.

RECEIVED CASH FROM OWNER AS AN INVESTMENT

JOURNAL									
1		4		2		3		5	
DATE		ACCOUNT TITLE		GENERAL		SALES CREDIT		CASH	
				DEBIT		CREDIT		DEBIT	
								CREDIT	
1	Aug. 1	1	Barbara Treviño, Capital	R1		10 000 00		10 000 00	

Information for each transaction recorded in a journal is known as an entry. An entry consists of four parts: (1) date, (2) debit, (3) credit, and (4) source document. Before a transaction is recorded in a journal, the transaction is analyzed into its debit and credit parts.

August 1. Received cash from owner as an investment, \$10,000.00. Receipt No. 1.

The source document for this transaction is Receipt No. 1. (*CONCEPT: Objective Evidence*) The analysis of this transaction is shown in the T accounts.

The asset account, Cash, is increased by a debit, \$10,000.00. The owner's capital account, Barbara Treviño, Capital, is increased by a credit, \$10,000.00.

Cash	
10,000.00	
	Barbara Treviño, Capital
	10,000.00

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

Journalizing cash received from owner as an investment

- Date.** Write the date, 20—, Aug. 1, in the Date column. This entry is the first one on this journal page. Therefore, the year and month are both written for this entry. Neither the year nor the month are written again on the same page.
- Debit.** The journal has a special amount column for debits to Cash. Write the debit amount, \$10,000.00, in the Cash Debit column. The title of the account is in the column heading. Therefore, the account title does not need to be written in the Account Title column.
- Credit.** There is no special amount column with the title of the account credited, Barbara Treviño, Capital, in its heading. Therefore, the credit amount, \$10,000.00, is recorded in the General Credit column. In order to indicate what account is to be credited for this amount, write the title of the account, *Barbara Treviño, Capital*, in the Account Title column. (All amounts recorded in the General Debit or General Credit amount columns must have an account title written in the Account Title column.)
- Source document.** Write the source document number, R1, in the Doc. No. column. The source document number, R1, indicates that this is Receipt No. 1. (The source document number is a cross reference from the journal to the source document. If more details are needed about this transaction, a person can refer to Receipt No. 1.)

PAID CASH FOR SUPPLIES

DATE		ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH	
					DEBIT	CREDIT		DEBIT	CREDIT
2	3	Supplies	C1		1577.00				1577.00

2 Debit 3 Credit
1 Date 4 Source Document

August 3. Paid cash for supplies, \$1,577.00. 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, is increased by a debit, \$1,577.00. The asset account, Cash, is decreased by a credit, \$1,577.00.

Supplies	
1,577.00	
Cash	
	1,577.00

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

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Journalizing cash paid for supplies

- 1. Date.** Write the date, 3, in the Date column. This is not the first entry on the journal page. Therefore, the year and month are not written for this entry.
- 2. Debit.** There is no special amount column with the title of the account debited, Supplies, in its heading. Therefore, the debit amount, \$1,577.00, is recorded in the General Debit column. In order to indicate what account is to be debited for this amount, write the title of the account, *Supplies*, in the Account Title column.
- 3. Credit.** The journal has a special amount column for credits to Cash. Write the credit amount, \$1,577.00, in the Cash Credit column. The title of the account is in the column heading. Therefore, the account title does not need to be written in the Account Title column.
- 4. Source document.** Write the source document number, C1, in the Doc. No. column. The source document number, C1, indicates that this is Check No. 1.



REMEMBER

When an account such as Cash is used frequently, it can be time-consuming to write the account title over and over. Using a special amount column for a frequently used account saves time.

TERMS REVIEW

journal	source
journalizing	document
special amount column	check
general amount column	invoice
entry	sales invoice
double-entry accounting	receipt
	memorandum

AUDIT YOUR UNDERSTANDING

1. In what order are transactions recorded in a journal?
2. Why are source documents important?
3. List the four parts of a journal entry.

WORK TOGETHER

Journalizing entries into a five-column journal

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

Ruth Muldoon owns Muldoon Copy Center, which uses the following accounts:

Cash	Prepaid Insurance	Ruth Muldoon, Drawing	Rent Expense
Accts. Rec.—Lester Dodge	Accts. Pay.—Ron’s Supplies	Sales	Utilities Expense
Supplies	Ruth Muldoon, Capital	Miscellaneous Expense	

Transactions: Apr. 1. Received cash from owner as an investment, \$7,000.00. R1.
2. Paid cash for supplies, \$425.00. C1.

4. Journalize each transaction completed during April of the current year. Use page 1 of the journal. Source documents are abbreviated as follows: check, C; memorandum, M; receipt, R; sales invoice, S; calculator tape, T. Save your work to complete Work Together on page 75.

ON YOUR OWN

Journalizing entries into a five-column journal

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

Gale Klein owns Klein’s Service Center, which uses the following accounts:

Cash	Prepaid Insurance	Gale Klein, Drawing	Miscellaneous Expense
Accts. Rec.—Connie Vaughn	Accts. Pay.—Osamu Supply Co.	Sales	Rent Expense
Supplies	Gale Klein, Capital	Advertising Expense	

Transactions: June 2 Received cash from owner as an investment, \$1,500.00. R1.
3. Paid cash for supplies, \$35.00. C1.

5. Journalize each transaction completed during June of the current year. Use page 1 of the journal. Source documents are abbreviated as follows: check, C; memorandum, M; receipt, R; sales invoice, S; calculator tape, T. Save your work to complete On Your Own on page 75.

4-2 Journalizing Buying Insurance, Buying on Account, and Paying on Account

PAID CASH FOR INSURANCE

JOURNAL										PAGE 1
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH			
				DEBIT	CREDIT		DEBIT	CREDIT		
4	Prepaid Insurance	C2		1200.00				1200.00		

2 Debit
1 Date
4 Source Document
3 Credit

August 4. Paid cash for insurance, \$1,200.00. Check No. 2.

Prepaid Insurance	
1,200.00	
Cash	1,200.00

The source document for this transaction is Check No. 2. (CONCEPT: Objective Evidence) The analysis of this transaction is shown in the T accounts.

The asset account, Prepaid Insurance, is increased by a debit, \$1,200.00. The asset account, Cash, is decreased by a credit, \$1,200.00.

S Journalizing cash paid for insurance

STEPS

- 1. Date.** Write the date, 4, in the Date column.
- 2. Debit.** There is no special amount column with the title of the account debited, Prepaid Insurance, in its heading. Therefore, the debit amount, \$1,200.00, is recorded in the General Debit column. In order to indicate what account is to be debited for this amount, write the title of the account, *Prepaid Insurance*, in the Account Title column.
- 3. Credit.** The journal has a special amount column for credits to Cash. Write the credit amount, \$1,200.00, in the Cash Credit column. The title of the account is in the column heading. Therefore, the account title does not need to be written in the Account Title column.
- 4. Source document.** Write the source document number, C2, in the Doc. No. column.



REMEMBER

All amounts recorded in the General Debit or General Credit amount columns must have an account title written in the Account Title column.

BOUGHT SUPPLIES ON ACCOUNT

1 Date		2 Debit		3 Credit		PAGE 1	
DATE		ACCOUNT TITLE		GENERAL		CASH	
		DOC. NO.		SALES CREDIT			
		POST. REF.		DEBIT		CREDIT	
4	7	Supplies	M1	2720.00			4
5		Accts. Pay.—Ling Music Supplies			2720.00		5

4 Source Document

August 7. Bought supplies on account from Ling Music Supplies, \$2,720.00. Memorandum No. 1.

Supplies	
2,720.00	
Accts. Pay.—Ling Music Supplies	
	2,720.00

action immediately. Therefore, a memorandum is prepared that shows supplies received on account.

The source document for this transaction is Memorandum No. 1. (*CONCEPT: Objective Evidence*) The analysis of this transaction is shown in the T accounts.

The asset account, **Supplies**, is increased by a debit, \$2,720.00. The liability account, **Accounts Payable—Ling Music Supplies**, is increased by a credit, \$2,720.00

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

S Journalizing supplies bought on account

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- 1. Date.** Write the date, 7, in the Date column.
- 2. Debit.** There is no special amount column with the title of the account debited, **Supplies**, in its heading. Therefore, the debit amount, \$2,720.00, is recorded in the General Debit column. In order to indicate what account is to be debited for this amount, write the title of the account, *Supplies*, in the Account Title column.
- 3. Credit.** Again, there is no special amount column with the title of the account credited, **Accounts Payable—Ling Music Supplies**, in its heading. Therefore, the credit amount, \$2,720.00, is recorded on the next journal line in the General Credit column. In order to indicate what account is to be credited for this amount, write the title of the account, *Accounts Payable—Ling Music Supplies*, in the Account Title column on the same line as the credit amount.
This entry requires two lines in the journal because account titles for both the debit and credit amounts must be written in the Account Title column.
- 4. Source document.** Write the source document number, *M1*, in the Doc. No. column on the first line of the entry.

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Of all service businesses in the United States, only 4 percent employ 50 or more people and 80 percent have fewer than 10 employees.

PAID CASH ON ACCOUNT

JOURNAL										PAGE 1
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH			
				DEBIT	CREDIT		DEBIT	CREDIT		
11	Accts. Pay.—Ling Music Supplies	C3		136000					136000	

1 Date

2 Debit

4 Source Document

3 Credit

August 11. Paid cash on account to Ling Music Supplies, \$1,360.00. Check No. 3.

Accts. Pay.—Ling Music Supplies	
1,360.00	
	Cash
	1,360.00

The source document for this transaction is Check No. 3. (*CONCEPT: Objective Evidence*) The analysis of this transaction is shown in the T accounts.

The liability account, Accounts Payable—Ling Music Supplies, is decreased by a debit, \$1,360.00. The asset account, Cash, is decreased by a credit, \$1,360.00.



ACCOUNTING AT WORK



MARY WITHERSPOON

In high school, Mary M. Witherspoon considered pursuing a degree in accounting. Her career choice was confirmed by ACCUMATION, a career education program for high school students sponsored by the Dallas Chapter of the Texas Society of CPAs. Students participate in this week-long summer program, which includes visits to an international accounting firm and the chance to sit in on university accounting classes.

Mary graduated with a BBA in Accounting and works for Oryx Energy Company, a large independent producer of oil and gas in Dallas. Currently in gas balancing accounting, she reconciles records of jointly owned properties to ensure Oryx receives their entitled gas volumes. Working in the corporate environment has allowed Mary to

change job responsibilities over her career to gain additional experience.

Mary believes that exceptional people skills coupled with technical experience is the formula for business success. People skills include written and verbal communication, respecting diversity, and the ability to work in teams.

Mary also serves as a district vice-president of the American Business Women’s Association (ABWA). ABWA promotes the advancement of women in business by sponsoring continuing education, providing leadership training, and offering encouragement.

“High school students can contact their state or local society of certified public accountants for accounting career information,” says Mary. “We CPAs support programs to encourage student interest in our field.”

AUDIT YOUR UNDERSTANDING

1. Which journal columns are used to record paying cash for insurance?
2. Which journal columns are used to record buying supplies on account?
3. Which journal columns are used to record paying cash on account?

WORK TOGETHER

Journalizing entries into a five-column journal

Use the journal that you started for Work Together on page 71. Your instructor will guide you through the following example.

Ruth Muldoon owns Muldoon Copy Center, which uses the following accounts:

Cash	Prepaid Insurance	Ruth Muldoon, Drawing	Rent Expense
Accts. Rec.—Lester Dodge	Accts. Pay.—Ron's Supplies	Sales	Utilities Expense
Supplies	Ruth Muldoon, Capital	Miscellaneous Expense	

Transactions: Apr. 5. Bought supplies on account from Ron's Supplies, \$300.00. M1.

7. Paid cash for insurance, \$600.00. C2.

9. Paid cash on account to Ron's Supplies, \$300.00. C3.

4. Journalize the transactions continuing on the next blank line of page 1 of the journal. Save your work to complete Work Together on page 81.

ON YOUR OWN

Journalizing entries into a five-column journal

Use the chart of accounts above and the journal that you started for On Your Own on page 71. Work this problem independently.

Gale Klein owns Klein's Service Center, which uses the following accounts:

Cash	Prepaid Insurance	Gale Klein, Drawing	Miscellaneous Expense
Accts. Rec.—Connie Vaughn	Accts. Pay.—Osamu Supply Co.	Sales	Rent Expense
Supplies	Gale Klein, Capital	Advertising Expense	

Transactions: June 5. Paid cash for insurance, \$100.00. C2.

9. Bought supplies on account from Osamu Supply Co., \$155.00. M1.

10. Paid cash on account to Osamu Supply Co., \$155.00. C3.

5. Journalize the transactions continuing on the next blank line of page 1 of the journal. Save your work to complete On Your Own on page 81.

4-3 Journalizing Transactions That Affect Owner's Equity and Receiving Cash on Account

RECEIVED CASH FROM SALES

JOURNAL										PAGE 1	
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH				
				DEBIT	CREDIT		DEBIT	CREDIT			
7	12 ✓	T12	✓			325.00		325.00		7	

1 Date
2 Debit
3 Credit
4 Source Document

August 12. Received cash from sales, \$325.00. Tape No. 12.

Cash	
325.00	
	Sales
	325.00

The source document for this transaction is Calculator Tape No. 12. (CONCEPT: Objective

Evidence) The analysis of this transaction is shown in the T accounts.

The asset account, Cash, is increased by a debit, \$325.00. The revenue account, Sales, is increased by a credit, \$325.00.

The reason that Sales is increased by a credit is discussed in the previous chapter. The owner's capital account has a normal credit balance. Increases in the owner's capital account are shown as credits. Because revenue increases owner's equity, increases in revenue are recorded as credits. A revenue account, therefore, has a normal credit balance.

S Journalizing cash received from sales

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- 1. Date.** Write the date, 12, in the Date column.
 - 2. Debit.** The journal has a special amount column for debits to Cash. Write the debit amount, \$325.00, in the Cash Debit column. The title of the account is in the column heading. Therefore, the account title does not need to be written in the Account Title column.
 - 3. Credit.** The journal also has a special amount column for credits to Sales. Write the credit amount, \$325.00, in the Sales Credit column. The title of the account is in the column heading. Therefore, the account title does not need to be written in the Account Title column.

Because both amounts for this entry are recorded in special amount columns, no account titles are written in the Account Title column. Therefore, a check mark is placed in the Account Title column to show that no account titles need to be written for this transaction. A check mark is also placed in the Post. Ref. column.

The use of the Post. Ref. column is described in Chapter 5.

- 4. Source document.** Write the source document number, T12, in the Doc. No. column.

REMEMBER

In double-entry accounting, each transaction affects at least two accounts. At least one account will be debited and at least one account will be credited.

SOLD SERVICES ON ACCOUNT

JOURNAL										PAGE 1
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH			
				DEBIT	CREDIT		DEBIT	CREDIT		
12	Accts. Rec.—Kids Time	S1		200.00					200.00	

1 Date

2 Debit

4 Source Document

3 Credit

August 12. Sold services on account to Kids Time, \$200.00. Sales Invoice No. 1.

Accts. Rec.—Kids Time	
200.00	
Sales	200.00

The source document for this transaction is Sales Invoice No. 1. (*CONCEPT: Objective Evidence*) The analysis of this transaction is shown in the T accounts.

The asset account, Accounts Receivable—Kids Time, is increased by a debit, \$200.00. The revenue account, Sales, is increased by a credit, \$200.00.

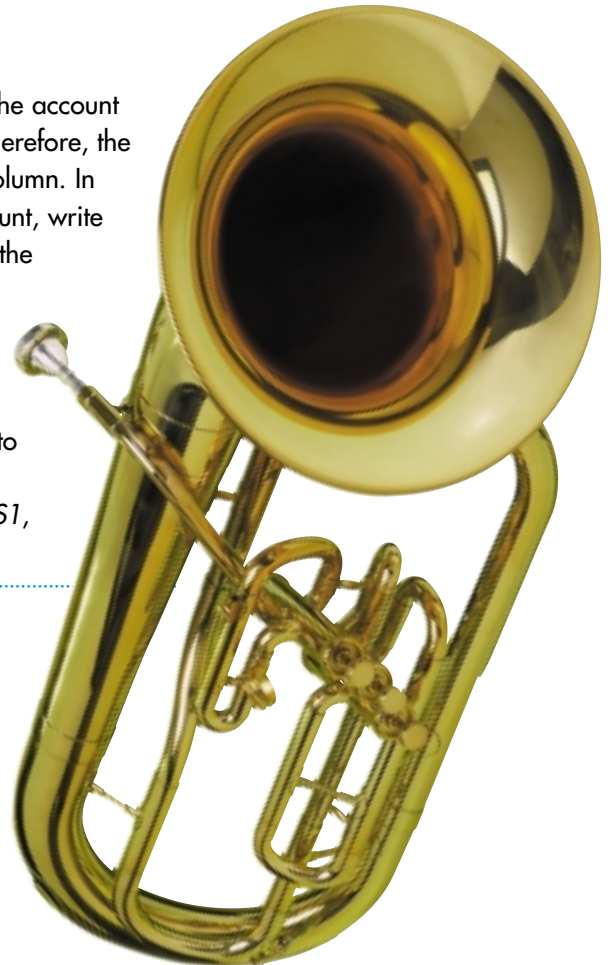
S Journalizing services sold on account

STEPS

- 1. Date.** Write the date, 12, in the Date column.
- 2. Debit.** There is no special amount column with the title of the account debited, Accounts Receivable—Kids Time, in its heading. Therefore, the debit amount, \$200.00, is recorded in the General Debit column. In order to indicate what account is to be debited for this amount, write the title of the account, *Accounts Receivable—Kids Time*, in the Account Title column.
- 3. Credit.** The journal has a special amount column for credits to Sales. Write the credit amount, \$200.00, in the Sales Credit column. The title of the account is in the column heading. Therefore, the account title does not need to be written in the Account Title column.
- 4. Source document.** Write the source document number, S1, in the Doc. No. column.

FIN

Accounting is not just for accountants. For example, a performing artist earns revenue from providing a service. Financial decisions must be made such as the cost of doing a performance, the percentage of revenue paid to a manager, travel expenses, and the cost of rehearsal space.



PAID CASH FOR AN EXPENSE

JOURNAL										PAGE 1
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH			
				DEBIT	CREDIT		DEBIT	CREDIT		
9	12 Rent Expense	C4		250.00					250.00	9
10	12 Utilities Expense	C5		45.00					45.00	10

August 12. Paid cash for rent, \$250.00.
Check No. 4.

Rent Expense	
250.00	
Cash	
	250.00

The source document for this transaction is Check No. 4. (CONCEPT: Objective Evidence) The

analysis of this transaction is shown in the T accounts.

The expense account, Rent Expense, is increased by a debit, \$250.00. The asset account, Cash, is decreased by a credit, \$250.00.

The reason that Rent Expense is increased by a debit is discussed in the previous chapter. The owner's capital account has a normal credit balance. Decreases in the owner's capital account are shown as debits.

Because expenses decrease owner's equity, increases in expenses are recorded as debits. An expense account, therefore, has a normal debit balance.

S Journalizing cash paid for an expense

STEPS

- 1. Date.** Write the date, 12, in the Date column.
- 2. Debit.** There is no special amount column with the title of the account debited, Rent Expense, in its heading. Therefore, the debit amount, \$250.00, is recorded in the General Debit column. In order to indicate what account is to be debited for this amount, write the title of the account, Rent Expense, in the Account Title column.
- 3. Credit.** The journal has a special amount column for credits to Cash. Write the credit amount, \$250.00, in the Cash Credit column. The title of the account is in the column heading. Therefore, the account title does not need to be written in the Account Title column.
- 4. Source document.** Write the source document number, C4, in the Doc. No. column.

Whenever cash is paid for an expense, the journal entry is similar to the entry discussed above. Therefore, the journal entry to record paying cash for utilities is also illustrated.

F Y I

Source documents can be critically important in tracking down errors. Businesses file their source documents so they can be referred to if it is necessary to verify information entered into their journals.

RECEIVED CASH ON ACCOUNT

JOURNAL										
1		2		3		4		5		PAGE 1
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH			
				DEBIT	CREDIT		DEBIT	CREDIT		
12	Accts. Rec.—Kids Time	R2			100.00			100.00		

1 Date 4 Source Document 3 Credit 2 Debit

August 12. Received cash on account from Kids Time, \$100.00. Receipt No. 2.

Cash	
100.00	
Accts. Rec.—Kids Time	
	100.00

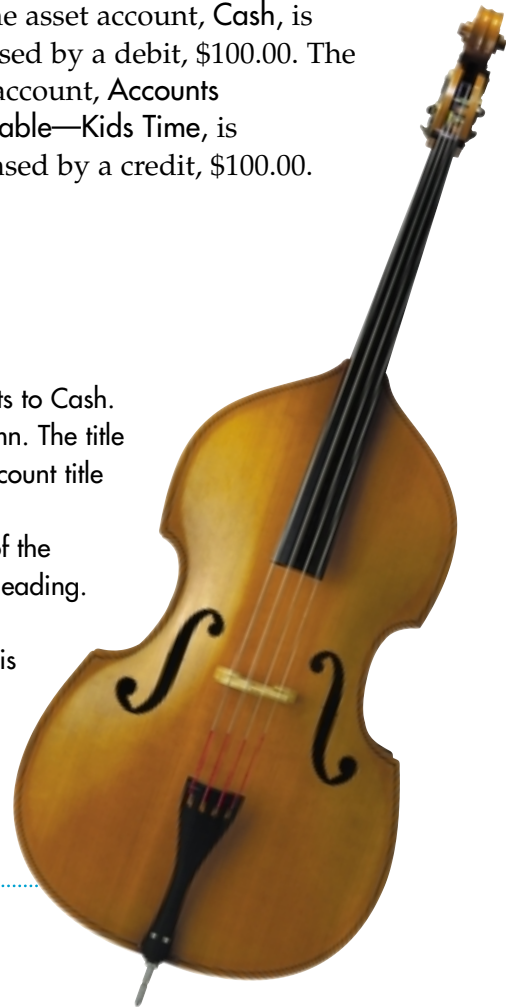
The source document for this transaction is Receipt No. 2. (*CONCEPT: Objective Evidence*) The analysis of this transaction is shown in the T accounts.

The asset account, Cash, is increased by a debit, \$100.00. The asset account, Accounts Receivable—Kids Time, is decreased by a credit, \$100.00.

S Journalizing cash received on account

STEPS

- 1. Date.** Write the date, 12, in the Date column.
- 2. Debit.** The journal has a special amount column for debits to Cash. Write the debit amount, \$100.00, in the Cash Debit column. The title of the account is in the column heading. Therefore, the account title does not need to be written in the Account Title column.
- 3. Credit.** There is no special amount column with the title of the account credited, Accounts Receivable—Kids Time, in its heading. Therefore, the credit amount, \$100.00, is recorded in the General Credit column. In order to indicate what account is to be credited for this amount, write the title of the account, *Accounts Receivable—Kids Time*, in the Account Title column.
- 4. Source document.** Write the source document number, R2, in the Doc. No. column.



REMEMBER

If you misspell words in your written communications, people may mistrust the quality of your accounting skills. Note that in the word receipt the “e” comes before the “i” and there is a silent “p” before the “t” at the end of the word.

PAID CASH TO OWNER FOR PERSONAL USE

JOURNAL										PAGE 1
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH			
				DEBIT	CREDIT		DEBIT	CREDIT		
12	12 Barbara Treviño, Drawing	C6		100.00					100.00	12

2 Debit
1 Date
4 Source Document
3 Credit

August 12. Paid cash to owner for personal use, \$100.00. Check No. 6.

Barbara Treviño, Drawing	
100.00	
Cash	
	100.00

The source document for this transaction is Check No. 6. (*CONCEPT: Objective Evidence*) The analysis of this transaction is shown in the T accounts.

The reason that Barbara Treviño, Drawing is increased by a debit is discussed in the previous chapter. Decreases in the owner’s capital account are shown as debits. Because withdrawals decrease owner’s equity, increases in withdrawals are recorded as debits. A withdrawal account, therefore, has a normal debit balance.



LEGAL ISSUES IN ACCOUNTING

FORMING AND DISSOLVING A PROPRIETORSHIP

A proprietorship is a business owned and controlled by one person. The advantages of a proprietorship include:

- Ease of formation.
- Total control by the owner.
- Profits that are not shared.

However, there are some disadvantages of organizing a proprietorship:

- Limited resources. The owner is the only person who can invest cash and other assets in the business.
- Unlimited liability. The owner is totally responsible for the liabilities of the business. Personal assets, such as a car, can be claimed by creditors to pay the business’s liabilities.

- Limited expertise. Limited time, energy, and experience can be put into the business by the owner.
- Limited life. A proprietorship must be dissolved when the owner dies or decides to stop doing business.

The owner is required to follow the laws of both the federal government and the state and city in which the business is formed. Most cities and states have few, if any, legal procedures to follow. Once any legal requirements are met, the proprietorship can begin business.

Should the owner decide to dissolve the proprietorship, he or she merely needs to stop doing business. Noncash assets can be sold, with the cash used to pay any creditors.

AUDIT YOUR UNDERSTANDING

1. Which journal columns are used to record receiving cash from sales?
2. Which journal columns are used to record sales on account?
3. Which journal columns are used to record paying cash for an expense?
4. Which journal columns are used to record receiving cash on account?
5. Which journal columns are used to record paying cash to owner for personal use?

WORK TOGETHER

Journalizing transactions that affect owner's equity into a five-column journal

Use the chart of accounts and journal from Work Together on page 75. Your instructor will guide you through the following example.

Transactions: Apr. 12. Paid cash for rent, \$950.00. C4.
13. Received cash from sales, \$2,200.00. T13.
14. Sold services on account to Lester Dodge, \$625.00. S1.
19. Paid cash for electric bill, \$157.00. C5.
20. Received cash on account from Lester Dodge, \$300.00. R2.
21. Paid cash to owner for personal use, \$1,400.00. C6.

6. Journalize the transactions continuing on the next blank line of page 1 of the journal. Save your work to complete Work Together on page 87.

ON YOUR OWN

Journalizing transactions that affect owner's equity into a five-column journal

Use the chart of accounts and journal from On Your Own on page 75. Work this problem independently.

Transactions: June 11. Paid cash for rent, \$200.00. C4.
12. Sold services on account to Connie Vaughn, \$200.00. S1.
16. Received cash from sales, \$1,050.00. T16.
17. Paid cash for postage (Miscellaneous Expense), \$32.00. C5.
19. Received cash on account from Connie Vaughn, \$100.00. R2.
20. Paid cash to owner for personal use, \$250.00. C6.

7. Journalize the transactions continuing on the next blank line of page 1 of the journal. Save your work to complete On Your Own on page 87.

4-4 Proving and Ruling a Journal

PROVING A JOURNAL PAGE

1 Add each amount column

2 Add debit totals and credit totals

Column	Debit Column Totals	Credit Column Totals
General	\$ 7,960.00	\$12,840.00
Sales		2,439.00
Cash	12,319.00	5,000.00
Totals	<u>\$20,279.00</u>	<u>\$20,279.00</u>

3 Totals equal

After Encore Music uses all but the last line on a journal page, columns are proved and ruled before totals are carried forward to the next page.

To prove a journal page, Encore Music verifies that the total debits on the page equal the total credits. Three steps are followed in proving a journal page.

If the total debits do not equal the total credits, the errors must be found and corrected before any more work is completed.

STEPS

Proving a journal page

1. Add each of the amount columns. Use a calculator if one is available.
2. Add the debit column totals, and then add the credit column totals as shown.
3. Verify that the total debits and total credits are equal. Because the total debits equal the total credits, page 1 of Encore Music's journal is proved.



GLOBAL PERSPECTIVE

FOREIGN CURRENCY

As our world becomes smaller and global trade increases, U.S. businesses become more involved in transactions with foreign businesses. These transactions can be stated in terms of U.S. dollars or in the currency of the other country. If the transaction involves foreign currency, a U.S. business must convert the foreign currency into U.S. dollars before the transaction can be recorded. (*CONCEPT: Unit of Measurement*)

The value of foreign currency may change daily. In the United States, the *exchange rate* is the value of foreign currency in relation to the U.S. dollar. Current exchange rates can be found

in many daily newspapers, on-line services, or banks.

The exchange rate is stated in terms of one unit of foreign currency. Using Germany as an example, presume that one German *mark* is worth 0.5789 U.S. dollars (or about 58 U.S. cents). This rate would be used when exchanging German marks for U.S. dollars.

A *conversion formula* can be used to find out how many foreign currency units can be purchased with one U.S. dollar. The formula is:

$$1 / \text{exchange rate} = \text{foreign currency per U.S. dollar}$$

$$1 \text{ dollar} / 0.5789 = 1.7272 \text{ marks per dollar}$$

RULING A JOURNAL PAGE

JOURNAL										PAGE 1
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH			
				DEBIT	CREDIT		DEBIT	CREDIT		
1 Aug. 1	Barbara Treviño, Capital	R1			1000000		1000000		1	
2	3 Supplies	C1		157700				157700	2	
3	4 Prepaid Insurance	C2		120000				120000	3	
23	20 Supplies	M2		2000					23	
24	Accts. Pay.—Sullivan Office Supplies				2000				24	
25	20 Carried Forward		✓	796000	1284000	243900	1231900	500000	25	

2 Date
 3 Carried Forward
 1 Single Rule
 4 Column Totals
 5 Double Rule

After a journal page is proved, it is ruled. Five steps are followed in ruling a journal page.

- S** **Ruling a journal page**
- T**
- E**
- P**
- S**
- 1.** Rule a single line across all amount columns directly below the last entry.
 - 2.** On the next line, write the date, 20, in the Date column.
 - 3.** Write the words *Carried Forward* in the Account Title column. A check mark is also placed in the Post. Ref. column. The use of the Post. Ref. column is described in Chapter 5.
 - 4.** Write each column total below the single line.
 - 5.** Rule double lines below the column totals across all amount columns.



SMALL BUSINESS SPOTLIGHT

Successful small business owners typically have the following characteristics: confidence to make decisions, determination to keep trying during hard times for the business, willingness to take risks, creativity to surpass the competition, and an inner need to achieve.

STARTING A NEW JOURNAL PAGE

JOURNAL										1	2	3	4	5
										PAGE 2				
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH							
				DEBIT	CREDIT		DEBIT	CREDIT						
1 ²⁰⁻ Aug. 20	Brought Forward		✓	796000	1284000	243900	1231900	500000	1					
2									2					

The column totals from the previous page are carried forward to a new page. The totals are

recorded on the first line of the new page, using the following four steps.

S Starting a new journal page

T
E
P
S

1. Write the page number, 2, at the top of the journal.
2. Write the date, 20—, Aug. 20, in the Date column. Because this is the first time that a date is written on page 2, the year, month, and day are all written in the Date column.
3. Write *Brought Forward* in the Account Title column. A check mark is also placed in the Post. Ref. column.
4. Record the column totals brought forward from the previous page.

PROVING AND RULING A JOURNAL AT THE END OF A MONTH

JOURNAL										1	2	3	4	5
										PAGE 2				
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH							
				DEBIT	CREDIT		DEBIT	CREDIT						
1 ²⁰⁻ Aug. 20	Brought Forward		✓	796000	1284000	243900	1231900	500000	1					
2	21	✓	T21	✓		27000	27000		2					
13	31	✓	T31	✓			29000	29000	13					
14	31		M3		300			300	14					
15	31				897900	1284000	441100	1429100	601900	15				

Encore Music always proves and rules a journal at the end of each month even if the last page for the month is not full.

The last page of a journal for a month is proved using the same steps previously described. Then, cash is proved and the journal is ruled. The proof of page 2 of Encore Music's journal is completed as shown. Proving cash is discussed on the next page.

Page 2 of Encore Music's journal is proved

	Debit Column Totals	Credit Column Totals
General	\$ 8,979.00	\$12,840.00
Sales		4,411.00
Cash	14,291.00	6,019.00
Totals	<u>\$23,270.00</u>	<u>\$23,270.00</u>

because the total debits are equal to the total credits, \$23,270.00.

Proving Cash

Determining that the amount of cash agrees with the accounting records is called **proving cash**. Cash can be proved at any time Encore Music wishes to verify the accuracy of

the cash records. However, Encore Music *always* proves cash at the end of a month when the journal is proved. Encore Music uses two steps to prove cash.

1. Calculate the cash balance.

Cash on hand at the beginning of the month	\$ 0.00
Encore Music began the month with no cash balance. Ms. Treviño invested the initial cash on August 1.	
Plus total cash received during the month	<u>+14,291.00</u>
This amount is the total of the journal's Cash Debit column.	
Equals total	\$14,291.00
Less total cash paid during the month	<u>- 6,019.00</u>
This amount is the total of the journal's Cash Credit column.	
Equals cash balance at the end of the month	<u>\$ 8,272.00</u>
Checkbook balance on the next unused check stub	<u>\$ 8,272.00</u>

2. Verify that the cash balance equals the checkbook balance on the next unused check stub in the checkbook. Because the cash balance calculated using the journal and the checkbook balance are the same, \$8,272.00, cash is proved.

Ruling a Journal at the End of a Month

A journal is ruled at the end of each month even if the last journal page is not full. The procedures for ruling a journal at the end of a month are similar to those for ruling a journal

page to carry the totals forward.

Encore Music uses five steps in ruling a journal at the end of each month, as shown on the previous page.

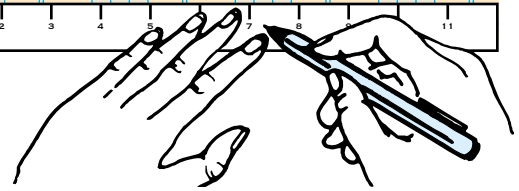
S Ruling a journal at the end of a month (these steps are illustrated on the previous page)

T
E
P
S

1. Rule a single line across all amount columns directly below the last entry to indicate that the columns are to be added.
2. On the next line, write the date, *31*, in the Date column.
3. Write the word *Totals* in the Account Title column. A check mark is not placed in the Post. Ref. column for this line. More information about the Totals line will be provided in Chapter 5.
4. Write each column total below the single line.
5. Rule double lines below the column totals across all amount columns. The double lines mean that the totals have been verified as correct.



JOURNAL											PAGE 2
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH				
				DEBIT	CREDIT		DEBIT	CREDIT			
28 ✓		T28				35000	35000				17
29	Rent Expense	C22		500						500	18
29	Repair Expense	C22		5000						5000	19
29	Miscellaneous Expense	C21		10000						10000	20
29	Supplies										
30	Barbara Treviño, Drawing	C24		50000						50000	21
30	Totals			875000	920000	400000	1230000	785000			22



In completing accounting work, Encore Music follows standard accounting practices. These practices include procedures for error corrections, abbreviating words, writing dollar and cents signs, and rulings.

- Errors are corrected in a way that does not cause doubts about what the correct information is. If an error is recorded, cancel the error by neatly drawing a line through the incorrect item. Write the correct item immediately above the canceled item.
- Sometimes an entire entry is incorrect and is discovered before the next entry is journalized. Draw neat lines through all parts of the incorrect entry. Journalize the entry correctly on the next blank line.
- Sometimes several correct entries are recorded after an incorrect entry is made. The next blank lines are several entries later. Draw neat lines through all incorrect parts of the entry. Record the correct items on the same lines as the incorrect items, directly above the canceled parts.
- Words in accounting records are written in

full when space permits. Words may be abbreviated only when space is limited. All items are written legibly.

- Dollars and cents signs and decimal points are not used when writing amounts on ruled accounting paper. Sometimes a color tint or a heavy vertical rule is used on printed accounting paper to separate the dollars and cents columns.
- Two zeros are written in the cents column when an amount is in even dollars, such as \$500.00. If the cents column is left blank, doubts may arise later about the correct amount.
- A single line is ruled across amount columns to indicate addition or subtraction.
- A double line is ruled across amount columns to indicate that the totals have been verified as correct.
- Neatness is very important in accounting records so that there is never any doubt about what information has been recorded. A ruler is used to make single and double lines.

REMEMBER

Double lines ruled below totals mean the totals have been verified as correct.

TERM REVIEW

proving cash

AUDIT YOUR UNDERSTANDING

1. List the three steps for proving a journal.
2. State the formula for proving cash.
3. List the five steps to rule a journal at the end of a month.

WORK TOGETHER

Proving and ruling a journal

Use the journal from Work Together on page 81. Your instructor will guide you through the following examples.

Transactions: Apr. 23. Sold services on account to Lester Dodge, \$317.00. S2.

27. Paid cash to owner for personal use, \$750.00. C7.

29. Received cash on account from Lester Dodge, \$75.00. R3.

30. Received cash from sales, \$743.00. T30.

4. Journalize the transactions for April 23 and 27.
5. Prove and rule page 1 of the journal. Carry the column totals forward to page 2 of the journal.
6. Use page 2 of the journal to journalize the rest of the transactions for April.
7. Prove page 2 of the journal.
8. Prove cash. The beginning cash balance on April 1 is zero. The balance on the next unused check stub is \$5,736.00.
9. Rule page 2 of the journal.

ON YOUR OWN

Proving and ruling a journal.

Use the journal from On Your Own on page 81. Work these problems independently.

Transactions: June 23. Sold services on account to Connie Vaughn, \$135.00. S2.

26. Paid cash for delivery charges (Miscellaneous Expense), \$17.00. C7.

27. Received cash on account from Connie Vaughn, \$100.00. R3.

30. Received cash from sales, \$235.00. T30.

10. Journalize the transactions for June 23 and 26.
11. Prove and rule page 1 of the journal. Carry the column totals forward to page 2 of the journal.
12. Use page 2 of the journal to journalize the rest of the transactions for June.
13. Prove page 2 of the journal.
14. Prove cash. The beginning cash balance on June 1 is zero. The balance on the next unused check stub is \$2,196.00.
15. Rule page 2 of the journal.

After completing this chapter, you can

1. Define important accounting terms related to journalizing transactions.
2. Identify accounting concepts and practices related to journalizing transactions.
3. Record in a five-column journal transactions to set up a business.
4. Record in a five-column journal transactions to buy insurance for cash and supplies on account.
5. Record in a five-column journal transactions that affect owner's equity and receiving cash on account.
6. Prove and rule a five-column journal and prove cash.

EXPLORE ACCOUNTING

PRENUMBERED DOCUMENTS

As one way to control the operations of the business, a company often will use prenumbered documents. Such a document is one that has the form number printed on it in advance. The most common example in everyday life is the personal check.

Businesses use several prenumbered documents. Examples include business checks, sales invoices, purchase orders, receipts, and memorandums.

The use of prenumbered documents allows a simple way to ensure that all documents are recorded. For example, when a business records the checks written during a period

of time, all check numbers should be accounted for in numeric order. The person recording the checks must watch to see that no numbers are skipped. In this way, the business is more confident that all checks are recorded.

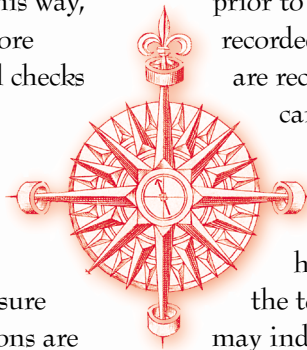
By using several types of prenumbered documents, the business helps ensure that all transactions are properly recorded.

Another way a business tries to control operations is through the use of batch totals. When many (sometimes hundreds) of documents are being recorded, the total amount can be used to help

ensure that all documents are recorded.

For example, when sales invoices are recorded, the total of all the invoices is calculated prior to the invoices being recorded. Once all invoices are recorded, another total can be calculated. If the two totals are equal, it can be assumed that all invoices have been recorded. If the totals *do not equal*, it may indicate that a document was skipped.

Research: Contact a local business and ask what prenumbered documents are used there. Determine how the business uses the documents to ensure that all documents are recorded properly.



4-1

APPLICATION PROBLEM

Journalizing transactions into a five-column journal

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

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

Transactions:

- Feb. 1. Received cash from owner as an investment, \$10,000.00. R1.
4. Paid cash for supplies, \$1,000.00. C1.
5. Paid cash for supplies, \$50.00. C2.

Instructions:

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

Save your work to complete Application Problem 4-2.

4-2

APPLICATION PROBLEM

Journalizing buying insurance, buying on account, and paying on account into a five-column journal

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

Transactions:

- Feb. 6. Paid cash for insurance, \$1,200.00. C3.
7. Bought supplies on account from Ronken Supplies, \$1,400.00 M1.
8. Paid cash on account to Ronken Supplies, \$700.00. C4.
12. Paid cash on account to Ronken Supplies, \$700.00. C5.

Instructions:

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

4-3

APPLICATION PROBLEM

Journalizing transactions that affect owner's equity and receiving cash on account into a five-column journal

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

Transactions:

- Feb. 12. Paid cash for rent, \$600.00. C6.
13. Received cash from sales, \$500.00. T13.
14. Sold services on account to Hetland Company, \$450.00. S1.
15. Paid cash for telephone bill, \$225.00. C7.
15. Paid cash to owner for personal use, \$1,800.00. C8.

- Feb. 18. Received cash from sales, \$278.00. T18.
- 19. Paid cash for postage (Miscellaneous Expense), \$64.00. C9.
- 21. Received cash an account from Hetland Company, \$250.00. R2.
- 22. Received cash from sales, \$342.00. T22.
- 22. Paid cash for heating fuel bill, \$329.00. C10.
- 25. Bought supplies on account from Ronken Supplies, \$76.00. M2.

Instructions:

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

4-4

APPLICATION PROBLEM
Proving and ruling a journal

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

Transactions:

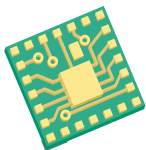
- Feb. 25. Received cash on account from Hetland Company, \$200.00. R3.
- 25. Paid cash for a delivery (Miscellaneous Expense), \$18.00. C11.
- 26. Sold services on account to Hetland Company, \$136.00. S2.
- 26. Paid cash for supplies, \$44.00. C12.
- 27. Paid cash for rent, \$600.00. C13.
- 27. Paid cash for postage (Miscellaneous Expense), \$10.00. C14.
- 28. Received cash from sales, \$1,365.00. T28.
- 28. Paid cash to owner for personal use, \$1,000.00. C15.

Instructions:

1. Journalize the transactions for February 25 and 26. Source documents use the same abbreviations as stated in Application Problem 4-1.
2. Prove and rule page 1 of the journal. Carry the column totals forward to page 2 of the journal.
3. Use page 2 of the journal to journalize the transactions for February 27 and 28.
4. Prove page 2 of the journal.
5. Prove cash. The beginning cash balance on February 1 is zero. The balance on the next unused check stub is \$4,595.00.
6. Rule page 2 of the journal.

4-5

APPLICATION PROBLEM
Journalizing transactions



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

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

Transactions:

- Apr. 1. Nick Bonnocotti invested \$2,000.00 of his own money in the business. Receipt No. 1.
- 3. Used business cash to purchase supplies costing \$37.00. Wrote Check No. 1.

- Apr. 4. Wrote Check No. 2 for insurance, \$120.00.
 5. Purchased supplies for \$50.00 over the phone from Western Supplies, promising to send the check next week. Memo. No. 1.
 11. Sent Check No. 3 to Western Supplies, \$50.00.
 12. Sent a check for the electricity bill, \$65.00. Check No. 4.
 15. Wrote a \$850.00 check to Mr. Bonnocotti for personal use. Used Check No. 5.
 16. Sold services for \$259.00 to Leon Quarve, who agreed to pay for them within 10 days. Sales Invoice No. 1.
 17. Recorded cash sales of \$1,668.00.
 18. Paid \$50.00 for advertising. Wrote Check No. 6.
 25. Received \$259.00 from Leon Quarve for the services performed last week. Wrote Receipt No. 2.

Instructions:

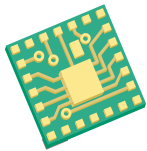
Journalize the transactions completed during April of the current year. Use page 1 of the journal given in the *Working Papers*. Remember to enter source document numbers as necessary.

4-6

MASTERY PROBLEM

Journalizing transactions and proving and ruling a journal

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



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

Transactions:

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

- June 17. Received cash from sales, \$600.00. T17.
- 18. Received cash from sales, \$800.00. T18.
- 19. Received cash from sales, \$750.00. T19.
- 22. Bought supplies on account from Long Supplies, \$80.00. M3.
- 22. Received cash from sales, \$700.00. T22.
- 23. Paid cash for advertising, \$130.00. C10.
- 23. Sold services on account to David's Limos, \$650.00. S2.
- 24. Paid cash for telephone bill, \$60.00. C11.
- 24. Received cash from sales, \$600.00. T24.
- 25. Received cash from sales, \$550.00. T25.
- 26. Paid cash for supplies, \$70.00. C12.
- 26. Received cash from sales, \$600.00. T26.
- 29. Received cash on account from David's Limos, \$650.00. R3.
- 30. Paid cash to owner for personal use, \$375.00. C13.
- 30. Received cash from sales, \$800.00. T30.

Instructions:

1. The journals for Jill's Car Wash are given in the *Working Papers*. Use page 1 of the journal to journalize the transactions for June 1 through June 19. Source documents are abbreviated as follows: check, C; memorandum, M; receipt, R; sales invoice, S; calculator tape, T.
2. Prove and rule page 1 of the journal. Carry the column totals forward to page 2 of the journal.
3. Use page 2 of the journal to journalize the transactions for the remainder of June.
4. Prove page 2 of the journal.
5. Prove cash. The beginning cash balance on June 1 is zero. The balance on the next unused check stub is \$17,283.00.
6. Rule page 2 of the journal.

4-7

CHALLENGE PROBLEM

Journalizing transactions using a variation of the five-column journal

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

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

Transactions:

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

Instructions:

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



INTERNET ACTIVITY

Point your browser to

<http://accounting.swpco.com>

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

Applied Communication

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

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

Cases for Critical Thinking

Case 1 During the summer, Willard Kelly does odd jobs to earn money. Mr. Kelly keeps all his money in a single checking account. He writes checks to pay for personal items and for business expenses. These payments include personal clothing, school supplies, gasoline for his car, and recreation. Mr. Kelly uses his check stubs as his accounting records. Are Mr. Kelly's accounting procedures and records correct? Explain your answer.

Case 2 In his business, Michael Rock uses a journal with the following columns: Date, Account Title, Check No., Cash Debit, and Cash Credit. Mr. Rock's wife, Jennifer, suggests that he needs three additional amount columns: General Debit, General Credit, and Sales Credit. Mr. Rock states that all his business transactions are for cash, and he never buys on account. Therefore, he doesn't see the need for more than the Cash Debit and Cash Credit special amount columns. Who is correct, Mr. or Mrs. Rock? Explain your answer.

AUTOMATED ACCOUNTING

RECORDING TRANSACTIONS

General Journal

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

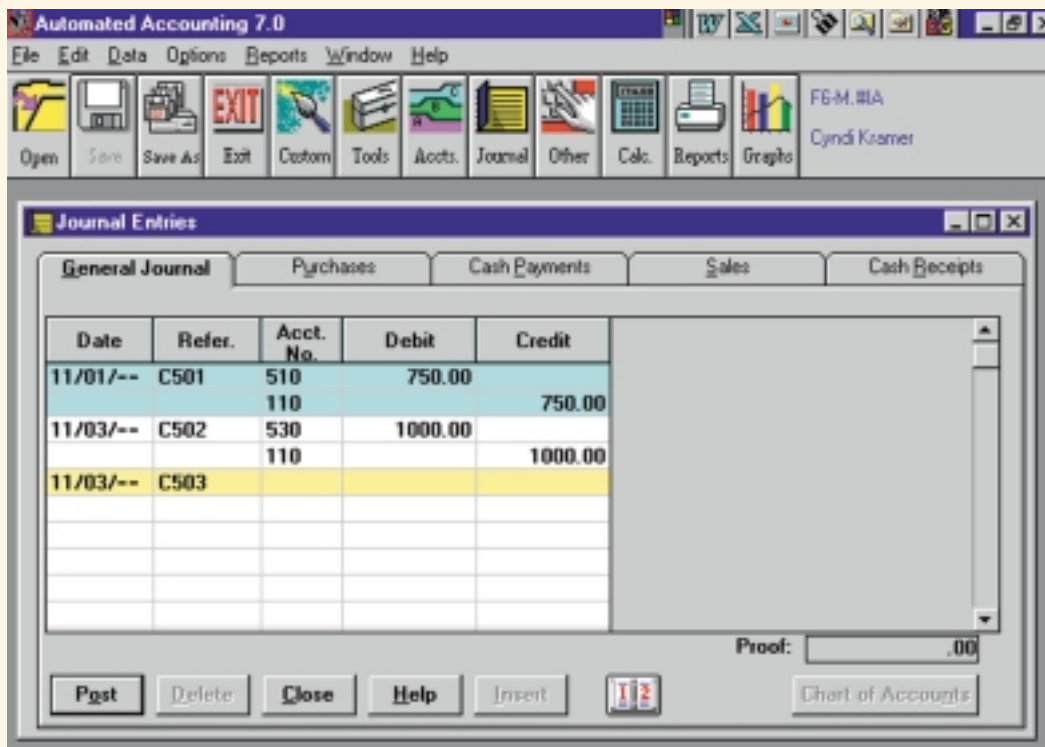
In an automated accounting system, the transactions that are

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

Recording Transactions in the General Journal Screen

Entering general journal entries can be done in five steps.

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



AUTOMATED ACCOUNTING

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

General Journal Transaction Additions, Changes, and Deletions

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

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

General Journal Report

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

A general journal report can be generated in three steps:

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

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

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

AUTOMATING APPLICATION PROBLEM 4-5: Journalizing transactions

Instructions:

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

accessed by clicking the Browser toolbar button.)

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

AUTOMATING MASTERY PROBLEM 4-6:

Journalizing transactions and proving and ruling a journal

Instructions:

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