

## TOPIC 3- BUSINESS TRANSACTIONS IN JOURNALS AND LEDGERS

### The accounting recording process

1. Source documents
2. Transaction analysis
3. Record in journal
4. Post to ledger
5. Unadjusted trial balance
6. Record & post adjusting entries
7. Adjusted trial balance
8. Financial statements

**General journal**- the diary of changes. It records each transaction/event which will impact on at least 2 accounts

- 4 Columns

**Ledgers**- The permanent record or 'account' of things in business, characterised by their element (A, L, OE, R, E)

- T shape

#### Account

**Account**- is an individual accounting record of increases and decreases in a specific asset, liability or owner's equity account

- *Examples:* cash at bank, a/c payable, capital, service revenue and wages expense

### Debit and credits

**Debit**- an accounting entry recorded on the left side of the equation. It will:

- Increase an asset account
- Decrease a liability account
- Decrease an owner's equity account

**Credit**- an accounting entry recorded on the right side of the equation. It will:

- Decrease an asset
- Increase a liability
- Increase an owners equity item

#### **The rule of debits and credits:**

$$A + D + E = L + C + R$$

#### Summary of debits and credits

Element	Increase	Decrease
Asset	DR	CR
Liability	CR	DR

Owners Equity	CR (capital)	DR (drawings)
Revenue	CR	DR
Expenses	DR	CR

**Example:**

Bought a new truck, and had to borrow the funds from the bank.

- Increase in Assets (truck) DR
- Increase in Liability (a/c payable) CR

Provided service and customer pays now

- Increase in Assets (cash) DR
- Increase in Revenue (service revenue) CR

## Transactions in the general journal

### Journal entries

- The **first step** in the process of preparing a journal entry is to analyse the accounts involved in a business transaction.
- Apply the **rules of debit and credit** based on the type of each account
- The total amount debited and credited should always be **equal**, thereby ensuring the accounting equation is maintained
- Remember total debits = total credits

The journal entry is recorded in the general journal in a specified format which includes the following details:

- Date of transaction
- Accounts involved
- A brief narration (explanation to describe transaction)
- Amount of the transaction

### **Steps in journaling transactions:**

1. Which elements are affected?
2. Which specific accounts are affected?
3. Are the items increasing or decreasing?
4. For each account, do we Debit (left) or Credit (right)?

**Example:**

1 Jan 2016: Courtney Skene contributed \$15,000 cash to the business

Analysis of transaction:

- Which account? = Cash & Capital
- Which element? = Assets & OE
- Increased or decreased? = Increased & Increased
- Debit or Credit? = DR & CR

Date	Accounts	Debit (Dr) \$	Credit (Cr) \$
1 Jan 2016	Cash (A ▲) Capital (OE ▲)	15,000	15,000

All transactions are to be recorded in the general journal in the manner illustrated above.

## Posting transactions to the general ledger

Posting from general journal to a general ledger is the next step in the accounting process.

- Ledger accounts are a way of presenting and grouping transactions relating to a particular account (eg. cash, capital)
- At the end of the financial period, the **closing balance** of each individual account is calculated and transferred to the trial balance
- Each account has its own ledger
- Ledger is a summary of one particular account

**Assets:** cash, accounts receivable, inventory, GST paid, machinery, vehicle

**Liabilities:** accounts payable, wages payable, GST collected, interest payable, utilities payable, unearned revenue

**Owners' equity:** capital, drawings

**Revenue:** sales revenue, service revenue, interest revenue

**Expense:** COGS, salaries expense, utilities expense, insurance expense, rent expense, depreciation expense

### Posting to ledgers

1. Refer to general journal to determine which accounts were debited and credited
2. Enter date in account to be debited
3. Enter name of the corresponding account that was credited
4. Enter amount to be debited
5. Repeat steps 1-4 for the credit side
6. At the end of financial period, calculate the closing balance

### Example of 3 column ledger format:

This format was used for the assignment (Taken from a sample excel spreadsheet I created)

102 Accounts receivable				
Date	Explanation	Debit	Credit	Balance
7/1/20	Service Revenue / GST Collected	792		792
19/1/20	Sales Revenue / GST Collected	7,150		7942
22/1/20	Sales Revenue / GST Collected	1,716		9658
26/1/20	Cash		7,150	2508
				2508
				2508
				2508
31/1/20	Closing Balance			2508