

ACCOUNTING **ESSENTIALS****3****Journal Entries and
T-Accounts**

Efficiency is one of the most important skills an accountant can learn. Consider our process thus far, which involves listing the impact of transactions on individual rows. This is certainly an effective recording method, but it's not very efficient. As an alternative, companies will record journal entries and then post the components of those entries to a ledger. In this chapter, you will learn about debits and credits, and how these impact the transaction-recording process.

LEARNING OBJECTIVES

- ▶ Distinguish between debits and credits
- ▶ Work with T-accounts
- ▶ Journalize a transaction
- ▶ Post a transaction
- ▶ Use a special journal and a subsidiary ledger

Project: Recording the First Month's Transactions

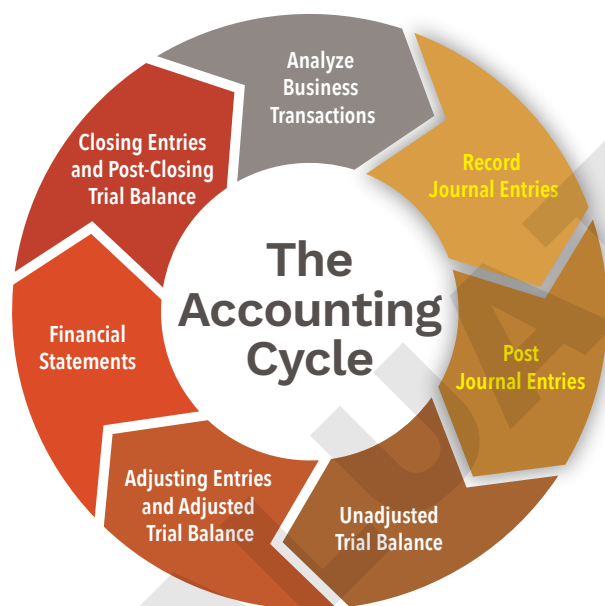
Now that you've given Nathaniel an understanding of the entire accounting cycle, you both agree that a more efficient method of recording transactions would be beneficial. He asks you to provide a formal listing of all transactions related to Nathan's Donut School for the first month of operations. You already have a listing, but it's relatively informal. You start by examining the role of debits and credits. You then learn how T-accounts can be used to visually convey the impact of a transaction.



After practicing recording several journal entries, you finish by reviewing special journals and subsidiary ledgers, which are used to summarize account details for specific companies with which Nathan's Donut School does business.

The Accounting Cycle

In this chapter, we'll cover two stages of the accounting cycle—steps 2 and 3—as we see how using journal entries is an efficient method for recording journal entries.



3/1	Cash	35,000	
	Nathaniel H. Spencer, Capital		35,000
	<i>Investment by owner</i>		
3/2	Equipment	20,000	
	Cash		20,000
	<i>Purchase of equipment for cash</i>		
3/4	Supplies	500	
	Furniture	1,000	
	Accounts Payable		1,500
	<i>Purchase of supplies and equipment on account</i>		

Debits and Credits

 View the video "Debits and Credits."

The method for recording transactions you practiced in the first chapter, although effective, is not used by most businesses. A more efficient process is to record a journal entry for each transaction.

3/1	Cash	35,000	
	Nathaniel H. Spencer, Capital		35,000
	<i>Investment by owner</i>		

A journal entry lists the accounts impacted and the amount by which each account has changed.

Per transaction, a journal entry must contain at least one debited account and one credited account, and remember that debits must equal credits. In the example above, it's easy to see which accounts are impacted (Cash and Nathaniel H. Spencer, Capital). Can you also tell whether each account increased or decreased?

You can by looking at whether a **debit** or **credit** is being booked. We know that Cash is being debited because it's listed at the top. We also know that Nathaniel H. Spencer, Capital is being credited because it's listed at the bottom of the journal entry (after the debit) and is indented.

When a journal entry contains multiple debits, each is listed on an individual row at the top. Similarly, multiple credits are listed individually after the debits, each indented once.

You may be wondering how to determine the impact of a debit or credit on an individual account. It's a matter of memorizing some rules. For example, when a transaction results in an asset increasing, you would convey this by debiting the asset. Conversely, to convey that an asset decreases, you would credit the asset. Review and challenge yourself to memorize the following table. It summarizes the impact of a debit and credit on each type of account.

TIP! While it may initially seem daunting, take the time to memorize the table as soon as possible. It'll make the upcoming work much easier.

IMPACT OF DEBITS AND CREDITS ON ACCOUNT TYPES		
Account Type	Debit	Credit
Asset	↑ Increase	↓ Decrease
Liability	↓ Decrease	↑ Increase
Capital	↓ Decrease	↑ Increase
Withdrawal	↑ Increase	↓ Decrease
Revenue	↓ Decrease	↑ Increase
Expense	↑ Increase	↓ Decrease

Evaluating a Transaction—Enhanced!

Remember the three-step process for analyzing transactions? It consists of determining which accounts are impacted, by how much, and whether each increases or decreases. Now that you understand a bit about debits and credits, we can enhance that process:

1. Determine which accounts are impacted.
2. Determine whether the balance in each account increases or decreases.
3. Determine by how much each account is debited or credited based on whether the account is an asset, liability, capital, withdrawal, revenue, or expense account.

Ask Yourself 3-1: When recording a journal entry for the purchase of supplies, do I indent the debit or the credit?

- A. Debit
- B. Credit

A CLOSER LOOK

Where Have I Seen “Debit” and “Credit” Before?

Many beginning accounting students are confused by the terms *debit* and *credit*, possibly due to how these terms are used in a common banking context. A *debit* card, for example, is used to spend money in your account. A bank error in your favor would *credit* your account. The impact rules we just looked at seem to work backward from this. You might be asking yourself why the rules dictate that a credit *decreases* the Cash account (an asset), while a credit to your personal bank account *increases* the balance.

It’s all about perspective. For example, when you receive a credit in your account from the bank, your balance certainly increases. The bank’s cash balance also decreases, and recall that a credit decreases an asset. The easiest way to overcome any potential confusion is to view these terms as entirely new; don’t even think about how you’ve used them previously. In other words, don’t search for reasons why a debit or credit has the impact indicated in the table. Just memorize the rules.

A good analogy relates to traffic signals. Think about why we proceed at a green light and stop at a red light. Is there some deep philosophical reason? No, it’s just how the system works. Debits and credits operate in much the same way. The rules apply simply because it’s how accounting functions.



CASE IN POINT 3-1

In this example, we’ll record journal entries for multiple transactions for Nathan’s Donut School.

1. On March 1, Nathaniel invests \$35,000 to open Nathan’s Donut School.

3/1	Cash	35,000	
	Nathaniel H. Spencer, Capital		35,000
	<i>Investment by owner</i>		

The date is displayed to the left of the first debited account, and a brief explanation in italics is added below the final credited account.

2. On March 2, Nathan’s Donut School pays \$20,000 for baking equipment.

3/2	Equipment	20,000	
	Cash		20,000
	<i>Purchase of equipment for cash</i>		

The credit to Cash indicates that the account has decreased, which is why the associated \$20,000 is not displayed as a negative amount. All figures in journal entries are displayed as positive amounts.

3. On March 4, the company purchases \$500 of supplies and \$1,000 of furniture from Office Place on account.

3/4	Supplies	500	
	Furniture	1,000	
	Accounts Payable		1,500
	<i>Purchase of supplies and furniture on account</i>		

This journal entry contains multiple debits. Journal entries with more than one debit are referred to as compound journal entries.

*The previous two transactions included the purchase of a **fixed asset**, which is an asset expected to be held for more than 12 months. If a fixed asset is sold instead of purchased, the fixed asset is credited (to reduce its balance) and Cash (if cash is received) or Accounts Receivable (if payment will be made later) is debited. In either case, when a fixed asset is sold there's no impact on the accounting equation because assets increase (Cash or Accounts Receivable) and decrease (fixed asset account) by the same amount.*

4. On March 7, Nathan's Donut School opens for business and earns \$850 cash.

3/7	Cash	850	
	Service Revenue		850
	<i>Cooking classes provided for cash</i>		

All \$850 in earnings increase the cash balance, which is why Cash is debited here.

Because Nathan's Donut School provides a service to its customers, it uses the Service Revenue account to record its revenue. Other types of revenue, such as interest or royalties, are recorded in the same manner. When these types of revenue are earned, their respective accounts (Interest Revenue, Royalty Revenue) are increased via a credit, thereby increasing total equity in the accounting equation.

5. On March 12, the company pays off the \$1,500 that was owed from the purchase of supplies and furniture.

3/12	Accounts Payable	1,500	
	Cash		1,500
	<i>Payment of accounts payable</i>		

In this transaction, cash was paid to satisfy an account payable. The payment of other types of liabilities is recorded similarly. For example, if a company pays off a loan it will debit Loans Payable, and if it repays the principle owed on a bond it will debit Bonds Payable. Any payment of an amount owed results in a debit to the associated liability account, which thereby reduces total liabilities within the accounting equation.

6. On March 13, Nathan's Donut School earns \$2,500 on account from SportCo.

3/13	Accounts Receivable	2,500	
	Service Revenue		2,500
	<i>Cooking classes provided on account</i>		

7. On March 18, the company purchases advertising in local newspapers for \$250.

3/18	Advertising Expense	250	
	Cash		250
	<i>Payment of advertising expenses</i>		

8. On March 21, the company receives \$300 on account in partial payment from SportCo (3/13 transaction).

3/21	Cash	300	
	Accounts Receivable		300
	<i>Receipt of cash owed from prior sale</i>		

The revenue for these cooking classes was recorded on March 13, when it was earned. Now that partial payment is being received, the Accounts Receivable account (amount owed to Nathan's Donut School) is reduced (credited).

9. On March 30, Nathan's Donut School pays rent of \$1,700 for the current month.

3/30	Rent Expense	1,700	
	Cash		1,700
	<i>Payment of rent expense</i>		

10. On March 31, Nathaniel withdraws \$400 from the business for his personal use.

3/31	Nathaniel H. Spencer, Drawing	400	
	Cash		400
	<i>Withdrawal of cash by owner</i>		

T-Accounts

View the video "T-Accounts."

As we've been discussing debits and credits, you may have noticed there's been no mention of how to determine final balances for each account. After booking journal entries, the next process is **posting**, which is necessary to calculate these balances. Posting transfers amounts in a journal entry to each account's respective **T-account**, which is a visual representation of the activity in a single account.

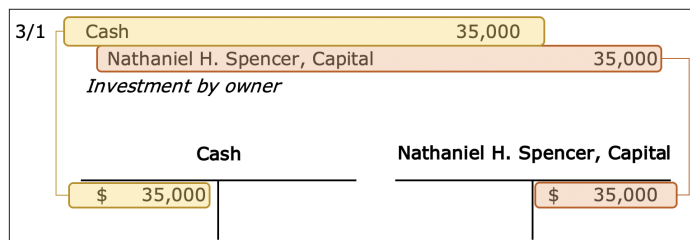
In a T-account, enter the account name on the top, account debits on the left side, and account credits on the right side. A debit in a journal entry will always be transferred to the debit (left) side of the appropriate T-account, while a credit will always be transferred to the credit (right) side of the appropriate T-account.

Account Name	
Debit side	Credit side

Debit and credit rules dictate that T-Accounts operate as shown here:

Assets		Owner's Equity			
		Capital		Withdrawals	
Debit	Credit	Debit	Credit	Debit	Credit
+	-	-	+	+	-
Liabilities		Revenues		Expenses	
Debit	Credit	Debit	Credit	Debit	Credit
-	+	-	+	+	-

A T-account holds all activity within a single account for a given period. This allows for an easy way to calculate the ending balance for an account in one convenient location.



The posting process copies amounts from journal entries to the individual T-accounts.

To determine the ending balance for an account, first add all amounts on the debit side and then add all amounts on the credit side. Lastly, subtract the smaller amount from the larger amount and place the resulting figure on the side with the larger amount.

Cash							
\$ 35,000	\$ 20,000						
\$ 850	\$ 1,500						
\$ 300	\$ 250						
	\$ 1,700						
	\$ 400						
* \$ 12,300							
<table> <tr> <td>* Total Debits:</td><td>\$ 36,150</td></tr> <tr> <td>Total Credits:</td><td>\$ 23,850</td></tr> <tr> <td>Difference:</td><td>\$ 12,300</td></tr> </table>		* Total Debits:	\$ 36,150	Total Credits:	\$ 23,850	Difference:	\$ 12,300
* Total Debits:	\$ 36,150						
Total Credits:	\$ 23,850						
Difference:	\$ 12,300						

As the total debits exceeded the total credits, the balance for this Cash account is placed on the debit side.

We typically expect to see account balances on the account's **normal balance** side. This is the side on which the account increases. In the case of the Cash account in this example, since cash is an asset, and assets increase on the debit side, this is where the balance usually lies. Therefore, the normal balance side is the debit side.

Ask Yourself 3-2: The right side of the T-account is the debit side. True or false?

A CLOSER LOOK

Do Companies Really Use T-Accounts?

Although helpful, T-accounts are not used as part of the formal accounting process. Instead, companies commonly use the **balance column format**. This format conveys the same information as a T-account but in a more streamlined manner that shows more information.

Cash				
Date	Explanation	Debit	Credit	Balance
3/1		\$ 35,000		\$ 35,000
3/2			\$ 20,000	\$ 15,000
3/7		\$ 850		\$ 15,850
3/12			\$ 1,500	\$ 14,350
3/18			\$ 250	\$ 14,100
3/21		\$ 300		\$ 14,400
3/30			\$ 1,700	\$ 12,700
3/31			\$ 400	\$ 12,300

Here we use the balance column format to calculate the same balance as in the previous T-account.

There are two reasons to use T-accounts when explaining the posting process. First, students typically find it easier to understand how to complete postings and the impact posting has on an account by examining the T-account. Second, companies today use computerized accounting systems that automatically calculate ending balances without the user needing to manually complete the posting process, so students are unlikely to manually use the balance column format in a professional setting.

CASE IN POINT 3-2

In this example, we'll post the transactions we journalized to the T-accounts in Case in Point 3-1.

- On March 1, Nathaniel invests \$35,000 to open Nathan's Donut School.

3/1	Cash	35,000		
	Nathaniel H. Spencer, Capital		35,000	
	Investment by owner			
	Cash		Nathaniel H. Spencer, Capital	
	\$ 35,000		\$ 35,000	

The journal entry was created in Case in Point 3-1. To post the two amounts in the journal entry, we first create T-accounts for the impacted accounts (Cash and Nathaniel H. Spencer, Capital). We then post, or transfer, the amounts from the journal entry to the T-accounts. We move all debits in the journal entry to the left (debit) side and all credits to the right (credit) side of the corresponding T-accounts.

2. On March 2, Nathan's Donut School pays \$20,000 for baking equipment.

3/2	Equipment	20,000	
	Cash		20,000
	<i>Purchase of equipment for cash</i>		
	Cash		Equipment
	\$ 35,000	\$ 20,000	\$ 20,000

Remember, the \$35,000 debit to Cash was established in the March 1 transaction.

3. On March 4, the company purchases \$500 of supplies and \$1,000 of furniture from Office Place on account.

3/4	Supplies	500	
	Furniture	1,000	
	Accounts Payable		1,500
	<i>Purchase of supplies and furniture on account</i>		
	Supplies		Furniture
	\$ 500		\$ 1,000
			Accounts Payable
			\$ 1,500

4. On March 7, Nathan's Donut School opens for business and earns \$850 cash.

3/7	Cash	850	
	Service Revenue		850
	<i>Cooking classes provided for cash</i>		
	Cash		Service Revenue
	\$ 35,000	\$ 20,000	\$ 850
	\$ 850		

5. On March 12, the company pays off the \$1,500 owed from the purchase of supplies and furniture.

3/12	Accounts Payable	1,500	
	Cash		1,500
	<i>Payment of accounts payable</i>		
	Cash		Accounts Payable
	\$ 35,000	\$ 20,000	\$ 1,500
	\$ 850	\$ 1,500	\$ 1,500

When the debt is paid in this journal entry, neither the Supplies nor the Furniture accounts are impacted.

6. On March 13, Nathan's Donut School earns \$2,500 on account from SportCo.

3/13	Accounts Receivable	2,500	
	Service Revenue		2,500
	<i>Cooking classes provided on account</i>		
	Accounts Receivable		Service Revenue
	\$ 2,500		\$ 850
			\$ 2,500

7. On March 18, the company purchases advertising in local newspapers for \$250.

3/18	Advertising Expense	250	
	Cash		250
	<i>Payment of advertising expenses</i>		
	Cash		Advertising Expense
	\$ 35,000	\$ 20,000	\$ 250
	\$ 850	\$ 1,500	
	\$ 250		

8. On March 21, the company receives \$300 on account in partial payment from SportCo (3/13 transaction).

3/21	Cash	300	
	Accounts Receivable		300
	<i>Receipt of cash owed from prior sale</i>		
	Cash		Accounts Receivable
	\$ 35,000	\$ 20,000	\$ 2,500
	\$ 850	\$ 1,500	\$ 300
	\$ 300	\$ 250	

9. On March 30, Nathan's Donut School pays rent of \$1,700 for the month.

3/30	Rent Expense	1,700	
	Cash		1,700
	<i>Payment of rent expense</i>		
	Cash		Rent Expense
	\$ 35,000	\$ 20,000	\$ 1,700
	\$ 850	\$ 1,500	
	\$ 300	\$ 250	
	\$ 1,700		

10. On March 31, Nathaniel withdraws \$400 from the business for his personal use.

3/31	Nathaniel H. Spencer, Drawing	400	
	Cash		400
	<i>Withdrawal of cash by owner</i>		
	Cash		Nathaniel H. Spencer, Drawing
	\$ 35,000	\$ 20,000	\$ 400
	\$ 850	\$ 1,500	
	\$ 300	\$ 250	
	\$ 1,700		
	\$ 400		

11. Based on the above transactions, here are the ending balances for each account:

Cash		Accounts Receivable		Supplies		Furniture	
\$ 35,000	\$ 20,000	\$ 2,500	\$ 300	\$ 500		\$ 1,000	
\$ 850	\$ 1,500						
\$ 300	\$ 250						
	\$ 1,700						
	\$ 400						
\$ 12,300		\$ 2,200		\$ 500		\$ 1,000	
Equipment		Accounts Payable		Nathaniel H. Spencer, Capital		Nathaniel H. Spencer, Drawing	
\$ 20,000		\$ 1,500	\$ 1,500		\$ 35,000	\$ 400	
\$ 20,000			\$ -		\$ 35,000	\$ 400	
Service Revenue		Advertising Expense		Rent Expense			
	\$ 850	\$ 250		\$ 1,700			
	\$ 2,500						
	\$ 3,350	\$ 250		\$ 1,700			

To determine ending balances, for every T-account, calculate the total for each side, subtract the smaller amount from the larger one, and place the result on the side with the larger amount. For example, to determine the ending Cash balance, first add all amounts on the debit side (\$36,150) and then add all amounts on the credit side (\$23,850). Subtract the smaller amount from the larger to arrive at the ending balance: $\$36,150 - \$23,850 = \$12,300$

The balance is recorded on the debit side of the T-account, as this side has a larger amount.

General and Special Journals

Based on the type of transaction, you may need to book (or record) an entry on a journal that displays all transactions of that specific type. This is helpful for reviewing business activity, and a company can tailor a **special journal** to their own specific needs.

JOURNAL TYPES AND ACTIVITY	
Special Journal	Displays Transactions...:
<u>Cash receipts journal</u>	In which cash is received
<u>Cash payments journal</u>	In which cash is paid out
<u>Revenue journal</u>	In which revenue is earned on account (accounts receivable)
<u>Purchases journal</u>	In which purchases are made on account (accounts payable)
<u>General journal</u>	That don't fit in the preceding journals

Because each special journal is designed to contain the same type of information, they each can take on a more streamlined appearance. As you review the following examples, you'll notice the abbreviations Cr. (credit) and Dr. (debit). These are common abbreviations used in accounting.

NOTE! The general journal displays entries in the standard manner you learned earlier in the chapter, so there's no example here.

Cash Receipts Journal					
Date	Account Credited	Accounts Receivable Cr.	Service Revenue Cr.	Other Accounts Cr.	Cash Dr.
3/21	SportCo	300			300

This journal for cash receipts displays the partial payment received from SportCo. Commonly credited accounts (Accounts Receivable and Service Revenue here) have a designated column. Any amounts credited to other accounts are recorded in the Other Accounts Cr. column.

Cash Payments Journal					
Date	Account Debited	Other Accounts Dr.	Accounts Payable Dr.	Supplies Dr.	Cash Cr.
3/2	Equipment	20,000			20,000

This cash payments journal shows the purchase of equipment with cash.

Revenue Journal		
Date	Account Debited	Accounts Receivable Dr. & Service Revenue Cr.
3/13	SportCo	2,500

This revenue journal shows revenue earned from SportCo on account.

Cash Purchases Journal					
Date	Account Credited	Merchandise Inventory Dr.	Supplies Dr.	Account Debited	Other Accounts Dr.
3/4	Office Place		500	Furniture	1,000

This purchases journal shows the purchase of supplies and furniture from Office Place on account.

Ask Yourself 3-3: Which journal records the purchase of equipment for cash?

- A. Cash receipts journal
- B. Cash payments journal
- C. Revenue journal
- D. Purchases journal

CASE IN POINT 3-3

In this example, we will identify which special journal each transaction should be recorded in.

1. Purchase of equipment for cash.

Because cash was paid to make this purchase, the transaction would be recorded in a cash payments journal.

2. A service is provided to a client, who pays in full.

Cash was received in this transaction, so it would be recorded in a cash receipts journal.

3. A sale is made to a customer on account.

In this transaction, revenue was earned, but the customer did not yet pay. This type of transaction is recorded in a revenue journal.

4. A withdrawal of cash is made by the owner.

As cash is being paid to the owner, this transaction is recorded in a cash payments journal.

5. An expense is recorded for the portion of prepaid insurance that has been used up at the end of the month.

This transaction does not fit in any of the four specialized journals and therefore is recorded in a general journal.

6. Purchase of supplies on account.

In this transaction, a purchase was made but no cash was paid out. This type of transaction is recorded in a purchases journal.

7. Purchase of office furniture for which seller agrees to accept payment later.

This circumstance is identical to buying office furniture “on account.” When we make a purchase on account, the transaction is recorded in a purchases journal.

8. Cash is received from a customer as a down payment, prior to any services being provided.

Although the revenue has not yet been earned, the cash was received, and therefore the transaction is recorded in a cash receipts journal.

9. Services are provided to a client, who is given 30 days to remit payment.

In this transaction, revenue was earned but payment was not received. This type of transaction is recorded in a revenue journal.

10. You realize that you incorrectly increased the Rent Expense account instead of Utilities Expense on a past journal entry. You record a new journal entry to correct the error.

There is no special journal in which this transaction would fit, so the correction is recorded in a general journal.

General and Subsidiary Ledgers

 **View the video “General and Subsidiary Ledgers.”**

Just as journal entries are entered in different journals, T-accounts are contained within ledgers. Most T-accounts are found in the [general ledger](#). There are two other ledgers that play a prominent role in recording transactions:

[Accounts receivable subsidiary ledger](#)

- Contains an individual accounts receivable T-account for each company that purchases goods or services on account from a business
- Associated with the revenue and cash receipts journals

[Accounts payable subsidiary ledger](#)

- Contains an individual accounts payable T-account for each company from which a business purchases goods or services on account
- Associated with the purchases and cash payments journals

The general ledger contains a **control account** for accounts receivable and accounts payable that displays the total balance across the entire business. The subsidiary ledgers hold multiple versions of each of these T-accounts in which details related to specific outside companies can be examined.

Control account		Subsidiary accounts					
Accounts Receivable							
\$ 14,000	\$ 9,500						
\$ 5,200	\$ 4,100						
\$ 2,700	\$ 1,100						
	\$ 1,000						
\$ 6,200							
A/R - Catch Corp.		A/R - Wyle Family Inc.		A/R - Rest Professionals			
\$ 14,000	\$ 9,500	\$ 5,200	\$ 4,100	\$ 2,700	\$ 1,000		
			\$ 1,100				
\$ 4,500		\$ -		\$ 1,700			

The subsidiary ledger account balances, when added together, equal the total within the general ledger control account (\$4,500 + \$0 + \$1,700 = \$6,200).

Ask Yourself 3-4: Control accounts are found in the general ledger. True or false?

CASE IN POINT 3-4

In this example, we will record a journal entry for each transaction and post to the general ledger and accounts payable subsidiary ledger. We'll then determine all applicable accounts payable balances.

- On Sept. 2, furniture is purchased for \$4,350 from Hickory Company on account.

9/2	Furniture	4,350			
	A/P - Hickory Company	4,350			
	<i>Purchase of furniture on account</i>				
	Cash		Accounts Payable		A/P - Hickory Company
	\$ 4,350		\$ 4,350		\$ 4,350

As the furniture is purchased on account, this journal entry debits Furniture and credits A/P - Hickory Company for \$4,350. The amount is posted to the general ledger accounts (Furniture, Accounts Payable) and the applicable subsidiary ledger account, which in this instance is A/P - Hickory Company.

2. On Sept. 8, office equipment is purchased for \$7,700 from Offices Direct on account.

9/8	Office Equipment	7,700					
	A/P - Offices Direct		7,700				
	<i>Purchase of office equipment on account</i>						
	Office Equipment		Accounts Payable		A/P - Offices Direct		
	\$ 7,700		\$ 4,350		\$ 7,700		
			\$ 7,700				

3. On Sept. 9, \$2,000 is paid in partial payment for the furniture (9/2 transaction). Prior to this transaction, the Cash account had a balance of \$31,500.

9/9	A/P - Hickory Company	2,000					
	Cash		2,000				
	<i>Partial payment of amount owed for furniture</i>						
	Cash		Accounts Payable		A/P - Hickory Company		
	\$ 31,500	\$ 2,000	\$ 2,000	\$ 4,350	\$ 2,000	\$ 4,350	
			\$ 7,700				

4. On Sept. 21, supplies are purchased for \$800 from Clips, Inc., on account.

9/21	Supplies	800					
	A/P - Clips, Inc.		800				
	<i>Purchase of supplies on account</i>						
	Supplies		Accounts Payable		A/P - Clips, Inc.		
	\$ 800		\$ 2,000	\$ 4,350	\$ 800		
			\$ 7,700				
			\$ 800				

5. On Sept. 26, the entire amount owed to Offices Direct for the office equipment is paid.

9/26	A/P - Offices Direct	7,700					
	Cash		7,700				
	<i>Payment of amount owed for office equipment</i>						
	Cash		Accounts Payable		A/P - Offices Direct		
	\$ 31,500	\$ 2,000	\$ 2,000	\$ 4,350	\$ 7,700	\$ 7,700	
		\$ 7,700	\$ 7,700	\$ 7,700			
			\$ 800				

6. Here are the ending balances for the Accounts Payable control account and its three subsidiary accounts:

Accounts Payable			
\$ 2,000	\$ 4,350		
\$ 7,700	\$ 7,700		
	\$ 800		
	\$ 3,150		
A/P - Hickory Company			
\$ 2,000	\$ 4,350		
	\$ 2,350		
A/P - Offices Direct			
\$ 7,700	\$ 7,700		
	\$ -		
A/P - Clips, Inc.			
	\$ 800		
	\$ 800		

Of course, the sum of the subsidiary accounts (\$2,350 + \$0 + \$800) equals the total in the control account (\$3,150).

Self-Assessment

Now it's time for you to check your knowledge of the key concepts and skills introduced in this chapter.
Complete the quiz in eLab or your ebook for immediate feedback!

1. An increase to an asset account is conveyed by crediting the account. True False
2. Every journal entry must contain at least one debit and one credit. True False
3. The right side of a T-account is the credit side. True False
4. T-accounts display all activity over a period for a single account. True False
5. The debit side of every T-account is the normal balance side. True False
6. Journal entries in which cash is paid are recorded in the purchases journal. True False
7. When using special journals, there's no need to record transactions in the general journal. True False
8. The abbreviation for debit is Dr. True False
9. Control accounts are contained within subsidiary ledgers. True False
10. The accounts payable subsidiary ledger contains individual T-accounts for each company from which a business has made purchases on account. True False
11. A credit increases which three types of accounts?
12. For which account is the debit side the normal balance side?
 - A. Accounts Payable
 - B. John Doe, Capital
 - C. Sales Revenue
 - D. Land
13. Which of these is NOT a special journal?
 - A. Cash payments journal
 - B. Revenue journal
 - C. Expenses journal
 - D. Purchases journal
14. Which of these is a commonly used ledger?
 - A. Expenses ledger
 - B. Accounts receivable subsidiary ledger
 - C. Purchases ledger
 - D. Normal ledger
15. What is a fixed asset?
 - A. An asset for which the balance does not change from one period to the next
 - B. An asset expected to be held for more than 12 months
 - C. An asset on which the company has incurred repair and maintenance expense
 - D. An asset the company no longer owns

16. You credited the Royalty Revenue account. What's the impact?

- A. Assets are decreased.
- B. Liabilities are decreased.
- C. Liabilities are increased.
- D. Equity is increased.

17. You paid the monthly rent expense. What's the impact?

- A. The Rent Expense account is credited.
- B. The Accounts Receivable account is debited.
- C. The Cash account is credited.
- D. The Accounts Payable account is credited.

18. Samuel Williams invests cash in the business he owns. Which account is credited?

- A. Service Revenue
- B. Samuel Williams, Drawing
- C. Samuel Williams, Capital
- D. Cash

19. Where is the credit in this journal entry? _____

3/4	Supplies	500	A
	Furniture	1,000	B
	Accounts Payable		C
	Purchase of supplies and furniture on account	1,500	D

20. What is posting?

- A. Transferring the amounts in each journal entry to each account's respective T-account
- B. Transferring the amounts in each account's respective T-account to each journal entry
- C. Transferring the amounts in each account's respective T-account to the appropriate financial statements
- D. Transferring the amounts in each journal entry to the appropriate financial statements

Putting It Together

PIT 3-1 RECORD JOURNAL ENTRIES AND POST TRANSACTIONS

In this example, we'll record journal entries and complete all postings for transactions that took place during the first month of operations for Amber's Lacrosse Emporium.

1. On May 1, Amber invests \$75,000 to open Amber's Lacrosse Emporium.

5/1	Cash	75,000	
	Amber Stein, Capital		75,000
	<i>Investment by owner</i>		
	Cash	Amber Stein, Capital	
	\$ 75,000		\$ 75,000

2. On May 2, Amber's Lacrosse Emporium pays \$15,000 for sporting goods inventory.

5/2	Merchandise Inventory	15,000	
	Cash		15,000
	<i>Purchase of inventory for cash</i>		
	Cash	Merchandise Inventory	
	\$ 75,000	\$ 15,000	\$ 15,000

3. On May 4, the company purchases display equipment for \$12,000 in cash.

5/4	Equipment	12,000	
	Cash		12,000
	<i>Purchase of equipment for cash</i>		
	Cash	Equipment	
	\$ 75,000	\$ 15,000	\$ 12,000
		\$ 12,000	

4. On May 5, Amber pays \$1,500 of rent on the company's retail location.

5/5	Rent Expense	1,500	
	Cash		1,500
	<i>Payment of rent expense</i>		
	Cash	Rent Expense	
	\$ 75,000	\$ 15,000	\$ 1,500
		\$ 12,000	
		\$ 1,500	

- | | | | |
|-----|--|----------|-------|
| 5/8 | Supplies | 750 | |
| | Furniture | 2,000 | |
| | Accounts Payable | | 2,750 |
| | <i>Purchase of supplies and furniture on account</i> | | |
| | Supplies | | |
| | \$ 750 | | |
| | Furniture | | |
| | \$ 2,000 | | |
| | Accounts Payable | | |
| | | \$ 2,750 | |

- | | | | |
|------|--|-------|-------|
| 5/11 | Cash | 2,400 | |
| | Sales Revenue | | 2,400 |
| | <i>Sale of sporting goods for cash</i> | | |
| 5/11 | Cost of Goods Sold | 1,350 | |
| | Merchandise Inventory | | 1,350 |
| | <i>Reduction of inventory associated with above sale</i> | | |

Cash		Sales Revenue	
\$ 75,000	\$ 15,000		\$ 2,400
\$ 2,400	\$ 12,000		
	\$ 1,500		

Cost of Goods Sold		Merchandise Inventory	
\$ 1,350		\$ 15,000	\$ 1,350

- | | | | |
|------|------------------------------------|-----------|-------------------------|
| 5/11 | Accounts Payable | 2,750 | |
| | Cash | | 2,750 |
| | <i>Payment of accounts payable</i> | | |
| | | | |
| | Cash | | Accounts Payable |
| | \$ 75,000 | \$ 15,000 | |
| | \$ 2,400 | \$ 12,000 | \$ 2,750 |
| | | \$ 1,500 | |
| | | \$ 2,750 | \$ 2,750 |

8. On May 12, Amber's Lacrosse Emporium sells \$1,450 of sporting goods for cash and another \$3,000 on account to a local school district. The cost of all goods sold is \$2,100.

5/12	Cash	1,450			
	Accounts Receivable	3,000			
	Sales Revenue			4,450	
	<i>Partial payment made on sale of sporting goods</i>				
5/12	Cost of Goods Sold	2,100			
	Merchandise Inventory			2,100	
	<i>Reduction of inventory associated with above sale</i>				

Cash		Accounts Receivable		Merchandise Inventory	
\$ 75,000	\$ 15,000	\$ 3,000		\$ 15,000	\$ 1,350
\$ 2,400	\$ 12,000				\$ 2,100
\$ 1,450	\$ 1,500				
	\$ 2,750				

Sales Revenue		Cost of Goods Sold	
\$ 2,400	\$ 1,350		
\$ 4,450	\$ 2,100		

9. On May 14, the company purchases advertising in local newspapers for \$600.

5/14	Advertising Expense	600			
	Cash			600	
	<i>Payment of advertising expense</i>				

Cash		Advertising Expense	
\$ 75,000	\$ 15,000	\$ 600	
\$ 2,400	\$ 12,000		
\$ 1,450	\$ 1,500		
	\$ 2,750		
	\$ 600		

10. On May 18, the company receives \$2,100 in partial payment for the sporting goods previously sold to the local school district on account.

5/18	Cash	2,100			
	Accounts Receivable			2,100	
	<i>Receipt of cash owed from prior sale</i>				

Cash		Accounts Receivable	
\$ 75,000	\$ 15,000	\$ 3,000	\$ 2,100
\$ 2,400	\$ 12,000		
\$ 1,450	\$ 1,500		
\$ 2,100	\$ 2,750		
	\$ 600		

11. On May 22, Amber's Lacrosse Emporium pays \$1,600 in wages to its employees.

5/22	Wages Expense	1,600			
	Cash			1,600	
	<i>Payment of wages expense</i>				

Cash		Wages Expense	
\$ 75,000	\$ 15,000	\$ 1,600	
\$ 2,400	\$ 12,000		
\$ 1,450	\$ 1,500		
\$ 2,100	\$ 2,750		
	\$ 600		
	\$ 1,600		

12. On May 25, the company pays its telephone bill of \$135.

5/25	Telephone Expense	135	
	Cash		135
	<i>Payment of telephone expense</i>		
Cash		Telephone Expense	
\$ 75,000	\$ 15,000	\$ 135	
\$ 2,400	\$ 12,000		
\$ 1,450	\$ 1,500		
\$ 2,100	\$ 2,750		
	\$ 600		
	\$ 1,600		
	\$ 135		

13. On May 27, the company pays \$200 for monthly utilities.

5/27	Utilities Expense	200	
	Cash		200
	<i>Payment of utilities expense</i>		
Cash		Utilities Expense	
\$ 75,000	\$ 15,000	\$ 200	
\$ 2,400	\$ 12,000		
\$ 1,450	\$ 1,500		
\$ 2,100	\$ 2,750		
	\$ 600		
	\$ 1,600		
	\$ 135		
	\$ 200		

14. On May 28, Amber's Lacrosse Emporium buys an additional \$2,000 of sporting equipment inventory on account.

5/28	Merchandise Inventory	2,000	
	Accounts Payable		2,000
	<i>Purchase of inventory on account</i>		
Merchandise Inventory		Accounts Payable	
\$ 15,000	\$ 1,350	\$ 2,750	\$ 2,750
\$ 2,000	\$ 2,100		\$ 2,000

15. On May 31, Amber withdraws \$600 from the business.

5/31	Amber Stein, Drawing	600	
	Cash		600
	<i>Withdrawal of cash by owner</i>		
Cash		Amber Stein, Drawing	
\$ 75,000	\$ 15,000	\$ 600	
\$ 2,400	\$ 12,000		
\$ 1,450	\$ 1,500		
\$ 2,100	\$ 2,750		
	\$ 600		
	\$ 1,600		
	\$ 135		
	\$ 200		
	\$ 600		

16. Based on the above transactions, here are the ending balances for each account:

Cash		Accounts Receivable		Supplies		Merchandise Inventory	
\$ 75,000	\$ 15,000	\$ 3,000	\$ 2,100	\$ 750		\$ 15,000	\$ 1,350
\$ 2,400	\$ 12,000					\$ 2,000	\$ 2,100
\$ 1,450	\$ 1,500						
\$ 2,100	\$ 2,750						
	\$ 600						
	\$ 1,600						
	\$ 135						
	\$ 200						
	\$ 600						
\$ 46,565		\$ 900		\$ 750		\$ 13,000	
Furniture		Equipment		Accounts Payable		Amber Stein, Capital	
\$ 2,000		\$ 12,000		\$ 2,750	\$ 2,750		\$ 75,000
					\$ 2,000		
\$ 2,000		\$ 12,000			\$ 2,000		\$ 75,000
Amber Stein, Drawing		Sales Revenue		Cost of Goods Sold		Advertising Expense	
\$ 600			\$ 2,400	\$ 1,350		\$ 600	
			\$ 4,450	\$ 2,100			
\$ 600			\$ 6,850	\$ 3,450		\$ 600	
Rent Expense		Wages Expense		Telephone Expense		Utilities Expense	
\$ 1,500		\$ 1,600		\$ 135		\$ 200	
\$ 1,500		\$ 1,600		\$ 135		\$ 200	

Practice Set A

PSA 3-1 DETERMINE THE NORMAL BALANCE

Indicate whether the normal balance for each account is the debit or credit side of the T-account. Remember that the normal balance side is the one that increases.

	Debit Side	Credit Side
Accounts Payable		
Sales Revenue		
Furniture		
Advertising Expense		
Cash		
Notes Receivable		
John Doe, Drawing		
Utilities Expense		
Supplies		
Cost of Goods Sold		

PSA 3-2 CALCULATE ENDING BALANCES

Calculate the ending balance for each T-account.

1. **Cash**

\$ 25,400	\$ 3,100
\$ 3,250	\$ 1,550
\$ 4,500	\$ 4,120
	\$ 800

2. **Accounts Receivable**

\$ 19,500	\$ 4,500
\$ 2,500	\$ 3,000
\$ 4,500	\$ 550
	\$ 2,000

3. **Accounts Payable**

\$ 750	\$ 1,550
\$ 1,200	\$ 1,200
\$ 400	

4. **Supplies**

\$ 1,250	\$ 325
\$ 400	\$ 205
	\$ 240

PSA 3-3 RECORD JOURNAL ENTRIES

Record journal entries for each transaction. While it's customary to include explanations in journal entries, for the purposes of this exercise you can omit them.

Not using eLab: Use the Journal Entries template.

1. Aug. 1: Martin Johnson invests \$425,000 to open his new appliance repair business.
2. Aug. 3: The company pays \$150,000 for land and \$70,000 for a building.
3. Aug. 5: Martin repairs appliances for three customers. Two customers pay cash totaling \$825; the third is billed \$300 and is yet to pay.
4. Aug. 8: The company purchases radio advertisements for \$3,000.
5. Aug. 11: The company purchases a car for \$23,000 by taking out an automobile loan.
6. Aug. 15: Martin repairs appliances for two customers, receiving a total of \$500 in cash.
7. Aug. 20: The company makes its first automobile loan payment of \$475.
8. Aug. 21: The company pays \$350 for utilities expense.
9. Aug. 27: The company pays \$2,000 for employee salaries.
10. Aug. 31: Martin withdraws \$10,000 from the business.

PSA 3-4 POST TO T-ACCOUNTS

Post all ten journal entries from PSA 3-3 to the appropriate T-accounts and determine the ending balance of each account.

Not using eLab: Use the T-Accounts template.

PSA 3-5 RECORD JOURNAL ENTRIES AND POST TO T-ACCOUNTS

Record journal entries for each transaction (omit explanations) and post all journal entries to the appropriate T-accounts. Then, determine the ending balance for each account.

Not using eLab: Use the Journal Entries and T-Accounts templates.

1. Oct. 1: Willy Baker invests \$150,000 to open his new furniture refinishing business.
2. Oct. 2: The company purchases \$18,000 of equipment on account.
3. Oct. 8: The company pays employee wages of \$1,100.
4. Oct. 10: Willy refinishes furniture for two customers, receiving \$2,200 cash in full payment for the work.
5. Oct. 11: The company purchases supplies for \$500.
6. Oct. 14: Willy refinishes furniture for a customer, who agrees to pay the \$750 bill within two weeks.
7. Oct. 17: The company pays \$425 for telephone expense.
8. Oct. 21: The company receives \$200 in partial payment for the bill from the Oct. 14 services.
9. Oct. 25: Willy withdraws \$430 from the business.
10. Oct. 29: The company pays \$825 in monthly rent.

PSA 3-6 INTERPRET JOURNAL ENTRIES WITHIN SPECIAL JOURNALS

Rewrite the journal entries shown below in special journals as standard journal entries (debits displayed on top, credits displayed at bottom). Each special journal contains two journal entries.

Not using eLab: Use the Journal Entries template.

- | Cash Receipts Journal | | | | | |
|-----------------------|------------------|-------------------------|---------------------|--------------------|----------|
| Date | Account Credited | Accounts Receivable Cr. | Service Revenue Cr. | Other Accounts Cr. | Cash Dr. |
| 4/5 | | | 1,450 | | 1,450 |
| 4/12 | CMS, Inc. | 2,200 | | | 2,200 |
- | Cash Payments Journal | | | | | |
|-----------------------|-----------------|--------------------|----------------------|--------------|----------|
| Date | Account Debited | Other Accounts Dr. | Accounts Payable Dr. | Supplies Dr. | Cash Cr. |
| 4/8 | | | | 650 | 650 |
| 4/22 | Furniture | 2,250 | | | 2,250 |
- | Revenue Journal | | |
|-----------------|-----------------|---|
| Date | Account Debited | Accounts Receivable Dr. & Service Revenue Cr. |
| 4/14 | AllNight | 2,400 |
| 4/19 | RobbinsCo | 785 |
- | Purchases Journal | | | | | |
|-------------------|------------------|---------------------------|--------------|-----------------|--------------------|
| Date | Account Credited | Merchandise Inventory Dr. | Supplies Dr. | Account Debited | Other Accounts Dr. |
| 4/9 | Fulto, Corp. | 6,850 | | | |
| 4/30 | BEED, Inc. | | | Equipment | 4,850 |

PSA 3-7 RECORD AND POST ACCOUNTS RECEIVABLE JOURNAL ENTRIES

Record the journal entry for each transaction and post to the general ledger accounts receivable account and the accounts receivable subsidiary ledger accounts. Finally, determine the ending balances for all accounts receivable balances (the control account and each subsidiary account).

Not using eLab: Use the Journal Entries and T-Accounts templates.

- Feb. 4: PaleTech Company is billed \$3,000 for services performed on account.
- Feb. 5: Fernandez Corp. is billed \$4,900 for services performed on account.
- Feb. 14: Fernandez Corp. pays the entire \$4,900 that is owed from the Feb. 5 invoice (bill).
- Feb. 23: MoonSite Corporation is billed \$2,500 for services provided on account.
- Feb. 24: MoonSite Corporation pays \$1,000 in partial payment of the Feb. 23 invoice.

Practice Set B

PSB 3-1 DETERMINE THE NORMAL BALANCE

Indicate whether the normal balance for each account is the debit or credit side of the T-account. Remember that the normal balance side is the one that increases.

	Debit Side	Credit Side
Equipment		
John Doe, Capital		
Rent Expense		
Merchandise Inventory		
Accounts Receivable		
Notes Payable		
Land		
Insurance Expense		
Buildings		
Service Revenue		

PSB 3-2 CALCULATE ENDING BALANCES

Calculate the ending balance for each T-account.

1. **John Doe, Capital**

\$ 12,500	\$ 84,000
	\$ 27,000

3. **Notes Receivable**

\$ 12,000	\$ 3,275
\$ 6,500	\$ 7,000
\$ 7,000	\$ 3,200
	\$ 2,000

2. **Furniture**

\$ 27,500	\$ 3,150
\$ 14,000	\$ 4,875

4. **Merchandise Inventory**

\$ 15,000	\$ 2,450
\$ 9,500	\$ 1,380
\$ 9,500	\$ 3,850
	\$ 1,925

PSB 3-3 RECORD JOURNAL ENTRIES

Record journal entries for each transaction. While it's customary to include explanations in journal entries, for the purposes of this exercise you can omit them.

Not using eLab: Use the Journal Entries template.

1. Jul. 1: Katherine Johnson invests \$200,000 to open her new antique shop.
2. Jul. 4: The company pays \$35,000 for merchandise inventory.
3. Jul. 6: The company purchases supplies on account for \$650.
4. Jul. 7: On its first day of operations, the company sells \$1,850 of merchandise for cash. The cost of that merchandise is \$775.
5. Jul. 14: The company pays off the full amount owed for the previously purchased supplies.
6. Jul. 16: The company pays \$110 for telephone expense.
7. Jul. 19: The company sells \$2,300 of merchandise for cash. The cost of the merchandise sold is \$1,115.
8. Jul. 22: The company sells \$6,200 of merchandise to a local business on account. The merchandise cost is \$4,000.
9. Jul. 23: The company pays \$1,250 for employee wages.
10. Jul. 31: Katherine withdraws \$5,500 from the business.

PSB 3-4 POST TO T-ACCOUNTS

Post all ten journal entries from PSb 3-3 to the appropriate T-accounts and determine the ending balances of each account.

Not using eLab: Use the T-Accounts template.

PSB 3-5 RECORD JOURNAL ENTRIES AND POST TO T-ACCOUNTS

Record journal entries for each transaction (omit explanations) and post all journal entries to the appropriate T-accounts. Then, determine the ending balances of each account.

Not using eLab: Use the Journal Entries and T-Accounts templates.

1. Nov. 1: Bernard Oliver invests \$325,000 to open his new gardening tool boutique.
2. Nov. 5: The company pays \$57,000 for merchandise inventory.
3. Nov. 8: On its first day of operations, the company sells \$3,475 of merchandise on account. The cost of the merchandise sold is \$1,900.
4. Nov. 13: The company pays \$84 for utilities.
5. Nov. 15: The company pays \$925 for supplies.
6. Nov. 17: The company receives \$3,000 in partial payment for the goods sold on Nov. 8.
7. Nov. 20: The company purchases furniture for \$2,000 on account.
8. Nov. 23: The company sells \$4,800 of merchandise for cash. The cost of the merchandise sold is \$3,100.
9. Nov. 28: The company receives interest earned on its bank account of \$45.
10. Nov. 29: Bernard withdraws \$24,500 from the business.

PSB 3-6 INTERPRET JOURNAL ENTRIES WITHIN SPECIAL JOURNALS

Rewrite the journal entries shown below in special journals as standard journal entries (debits displayed on top, credits displayed at bottom). Each special journal contains two journal entries.

Not using eLab: Use the Journal Entries template.

- | Cash Receipts Journal | | | | | |
|-----------------------|------------------|-------------------------|---------------------|--------------------|----------|
| Date | Account Credited | Accounts Receivable Cr. | Service Revenue Cr. | Other Accounts Cr. | Cash Dr. |
| 11/15 | Interest Revenue | | | 125 | 125 |
| 11/29 | | | 800 | | 800 |
- | Cash Payments Journal | | | | | |
|-----------------------|-----------------|--------------------|----------------------|--------------|----------|
| Date | Account Debited | Other Accounts Dr. | Accounts Payable Dr. | Supplies Dr. | Cash Cr. |
| 11/4 | Buildings | 65,000 | | 650 | 65,000 |
| 11/17 | BHV, Corp. | | 2,750 | | 2,750 |
- | Revenue Journal | | |
|-----------------|-----------------|---|
| Date | Account Debited | Accounts Receivable Dr. & Service Revenue Cr. |
| 11/10 | DGY, Co. | 1,770 |
| 11/24 | HIT, Inc. | 1,350 |
- | Purchases Journal | | | | | |
|-------------------|------------------|---------------------------|--------------|-----------------|--------------------|
| Date | Account Credited | Merchandise Inventory Dr. | Supplies Dr. | Account Debited | Other Accounts Dr. |
| 11/23 | HomeCo. | | 1,500 | | |
| 11/24 | Smith Inc. | 4,000 | | | |

PSB 3-7 RECORD AND POST ACCOUNTS RECEIVABLE JOURNAL ENTRIES

Record the journal entry for each transaction and post to the general ledger accounts receivable account and the accounts receivable subsidiary ledger accounts. Then determine the ending balances for all accounts receivable accounts (the control and all subsidiary accounts).

Not using eLab: Use the Journal Entries and T-Accounts templates.

- Dec. 1: RNI Incorporated is billed \$18,500 for services performed on account.
- Dec. 12: Aerial USA is billed \$23,200 for services performed on account.
- Dec. 16: RNI Incorporated pays \$10,000 in partial payment of the Dec. 1 invoice (bill).
- Dec. 19: TableMakers Cooperative is billed \$9,700 for services provided on account.
- Dec. 29: Aerial USA pays the entire \$23,200 that is owed from the Dec. 12 invoice.