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Journal Entries and T-Accounts

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LEARNING®

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

Debits and Credits

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

Recording a Journal Entry

- The date is displayed on the top line.
- Debits are displayed on top.
- Credits are displayed on the bottom.
- Account names and amounts are listed.
- Explanations are shown in the final row.

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

Evaluating Transactions—Enhanced!

- Evaluating a transaction is a three-step process:
  - **Step #1:** Determine which accounts are impacted.
  - **Step #2:** Determine whether the balance in each account increases or decreases.
  - **Step #3:** Determine by how much each account is debited or credited.

Evaluating Transactions—Example

- On its first day of business, Nathan's Donut School earns $850 in cash:
  - **Step #1:** The *Cash* and *Service Revenue* accounts are impacted.
  - **Step #2:** Both accounts have *increased*.
  - **Step #3:** *Debit* Cash for $850, and *credit* Service Revenue for $850.

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

T-Accounts

- Amounts are transferred from journal entries to T-Accounts through the *posting* process.
- T-Accounts display debits on the left, credits on the right, and ending balances at the bottom.

Assets	
Debit	Credit
+	-

Liabilities	
Debit	Credit
-	+

Owner's Equity

Capital	
Debit	Credit
-	+

Revenue	
Debit	Credit
-	+

Withdrawals	
Debit	Credit
+	-

Expenses	
Debit	Credit
+	-

Calculation of T-Account Balances

- Follow a three-step process to calculate T-Account balances:
  - Summarize the amounts on each side.
  - Subtract the smaller total from the larger total.
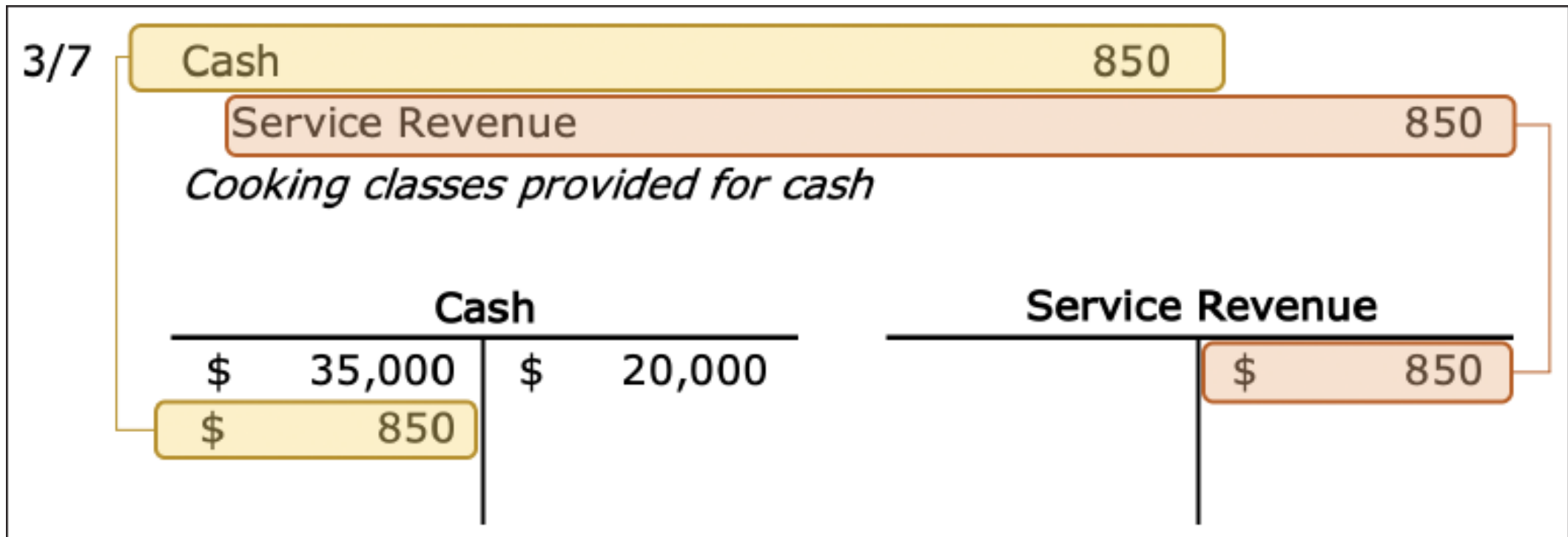 - Place the balance on the larger side.

	Cash		
$	35,000	$	20,000
$	850	$	1,500
$	300	$	250
		$	1,700
		$	400
* $	12,300		

* Total Debits:	$	36,150
Total Credits:	$	23,850
Difference:	$	12,300

Posting to T-Accounts

On its first day of business, Nathan's Donut School earns $850 in cash:

Special Journals

Transactions can be recorded in special journals, based on the type of transaction.

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

Subsidiary Ledgers

- They contain individual accounts for each company.
  - Accounts receivable subsidiary ledger
  - Accounts pay-able subsidiary ledger

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	