3 Journal Entries & T-Accounts

LEARNING OBJECTIVES

After studying this chapter, you will be able to:

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

Efficiency is one of the most important skills that an accountant can learn. Although listing the impact of transactions on individual rows is an effective recording method, it is not very efficient. Therefore, instead of using this method, 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.

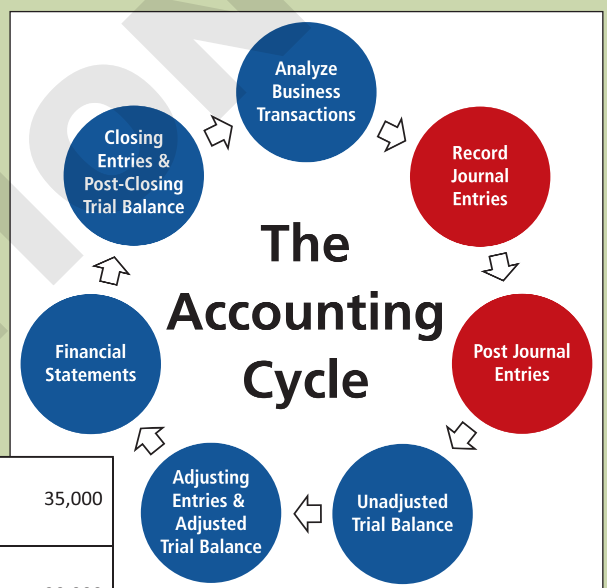
CASE STUDY

Recording the First Month's Transactions

Now that you have an understanding of the entire accounting cycle, you can see that a more efficient method of recording transactions would be beneficial. Nathaniel H. Spencer has requested a formal listing of all transactions related to Nathan's Donut School for the first month of operations. Since the listing that you previously created is relatively informal, you decide that you must further investigate the recording of transactions.

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 a number of 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.

Two stages of the accounting cycle will be covered in this chapter.



Journal entries offer an efficient method for recording transactions.

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

Using Debits & Credits

The method for recording transactions that you practiced in the first lesson, although accurate, is not used in the real world. Instead, a **journal entry** is recorded for each transaction. A journal entry lists the accounts impacted, and the amount by which each account has changed.

This journal entry indicates that the Cash account and Nathaniel H. Spencer, Capital account have been impacted.

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

It is easy to see which accounts have been impacted in the above journal entry, but how can you tell whether each account has increased or decreased? This can be determined by looking at whether a **debit** or **credit** is being booked for each account. In this example, we know that Cash is being debited, as it is listed at the top of the journal entry. We also know that Nathaniel H. Spencer, Capital is being credited, as it is listed at the bottom of the journal entry, and is indented.

NOTE! When a journal entry contains multiple debits, they are each listed on an individual row at the top of the entry. Multiple credits are also each listed on an individual row at the bottom of the entry and are all indented only once.

We can determine the impact of a debit or credit on an individual account by memorizing a number of rules. For example, when a transaction results in an asset increasing, this is conveyed by debiting the asset. Conversely, when an asset decreases, we credit the asset to illustrate this. Keep in mind that every journal entry must contain at least one debited account and one credited account.

WARNING! The total debits and total credits within each entry must be equal.

The following table summarizes the impact of a debit and credit on each type of account. While it may initially seem a bit daunting, memorizing the table as soon as possible will make 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 ⬇

When you were first introduced to transactions, a three-step process was used to analyze each. This process consisted of determining which accounts were impacted, by how much, and whether each account increased or decreased. Now that debits and credits have been introduced, this three-step process can be modified as follows:

Step 1 Determine which accounts have been impacted.

Step 2 Determine by how much each account has increased or decreased.

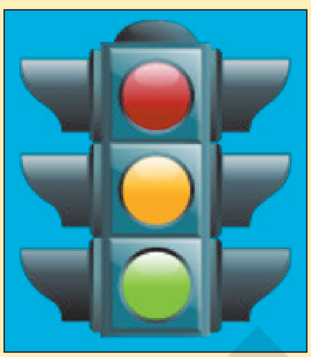
Step 3 Determine if these accounts must be debited or credited, based on whether each is an asset, liability, capital, withdrawal, revenue, or expense account.

A Closer LOOK

Where Have I seen "Debit" and "Credit" Before?

Many beginning accounting students are confused by the terms *debit* and *credit*. This confusion results from students having used these terms in the past, typically in a banking context. Students who have used "debit cards" or have had their bank accounts "credited" view the rules as working backwards. They ask why the rules dictate that a credit decreases the Cash account (an asset), while a credit to their personal bank account increases the balance.

The answer lies in the fact that these terms can be viewed from different perspectives. For example, when you receive a credit from the bank to your account, while it increases your balance, it also increases the bank's liability (recall that a credit increases a liability). The easiest way to overcome this potential confusion is to view these terms as ones that you have not used previously. Don't search for reasons why a debit or credit has the impact you see in the above chart, simply memorize these rules.



A good analogy relates to traffic signals. Think about why you proceed at a green light, while stopping at a red light. Is there some deep philosophical reason why you go on green and stop on red? No, this is simply how the system works. Debits and credits operate in much the same way. The above rules apply simply because this is how accounting functions.

Case In Point 3-1 Journalize Transactions

Let's walk though recording journal entries for multiple transactions of Nathan's Donut School.

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

Date

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

Explanation

Notice that the date is displayed to the left of the first debited account, and a brief explanation is written 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
	Purchase of Equipment for cash		

The credit to Cash already indicates that the account has decreased, therefore we do not display the associated $20,000 as a negative amount. All figures within 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
	Purchase of Supplies and Furniture on account		

Notice that this journal entry contains multiple debits. For this reason, it is referred to as a ***compound journal entry***.

4. On March 7, Nathan's Donut School opens for business, and on its first day earns $850 cash.

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

All $850 in earnings increases the cash balance. This is why the cash account is debited here.

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
	Payment of accounts payable		

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
	Cooking classes provided on account		

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

3/18	Advertising Expense	250	
	Cash		250
	Payment of advertising expenses		

8. On March 21, the Company receives $300 on account (in partial payment for the previously-earned amount).

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

The revenue for these cooking classes was recorded on March 13, when it was earned. Now that payment is being received for a portion of this revenue, 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 month.

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

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

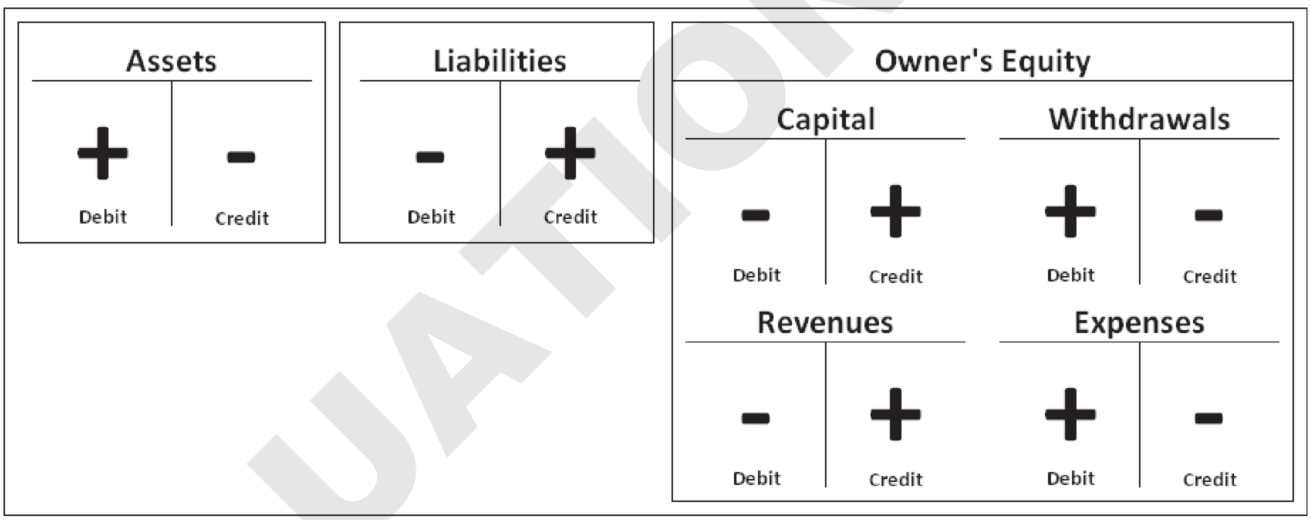
3/31	Nathaniel H. Spencer, Drawing	400	
	Cash		400
	Withdrawal of cash by owner		

Using T-Accounts

You may have noticed that, within the above discussion of debits and credits, there was no mention of how to determine final balances for each account. After booking our journal entries, there is another process called **posting**, which we must undertake in order to calculate these balances. The posting process transfers the amounts listed within each journal entry to each account's respective **T-Account**. A T-Account is a visual representation of the activity within a single account. The left side of a T-Account is always the *debit* side, while the right side of a T-Account is always the *credit* side. The name of the account for which activity is displayed is written at the top of the T-Account.

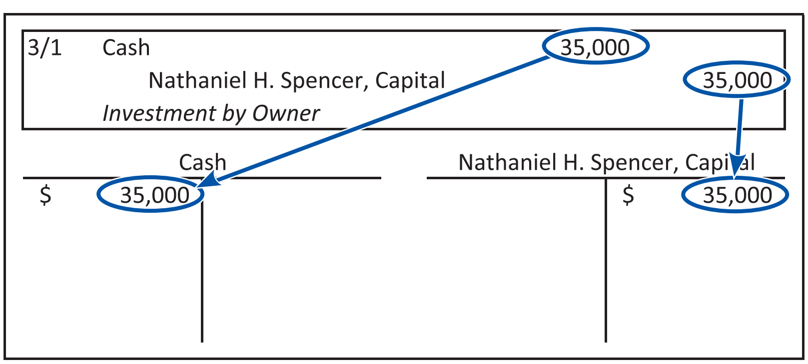
NOTE! A debit within a journal entry will always be transferred to the debit side of the appropriate T-Account, while a credit within a journal entry will always be transferred to the credit side of the appropriate T-Account.

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



A T-Account will accumulate all of the activity within a single account for a given period of time. We can then calculate the ending balance for an account in one convenient location.

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



In order to determine the ending balance for an account, you first add up all amounts on the debit side, and then add up all amounts on the credit side. Lastly, you subtract the smaller amount from the larger amount, and place the resulting figure on the side that contained the larger amount.

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

TIP! 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 above, 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.

A Closer LOOK

Are T-Accounts Really Used by Companies?

Although T-Accounts will often be relied upon informally within a company, they are not used as part of the formal accounting process. Instead, companies will commonly utilize the **Balance Column Format**. This format conveys the same information as a T-Account, but does so in a more streamlined manner.

Here we use the Balance Column Format to calculate the same balance as in the previous T-Account.

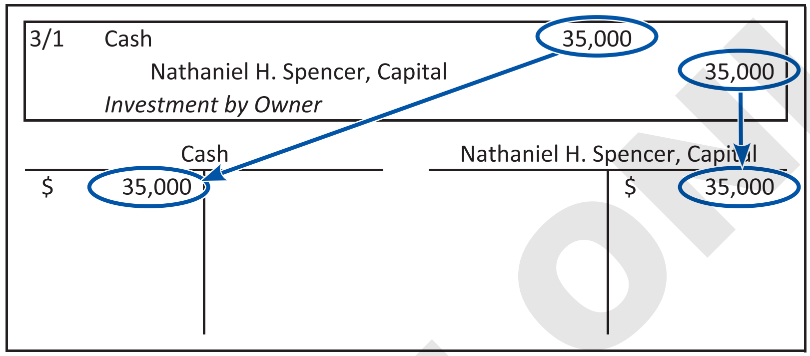
Cash				
Date	Explanation	Debit	Credit	Balance
3/1		$ 35,000		$ 35,000
3/2			$ 20,000	$ 15,000
3/7		$ 850		$ 15,850
3/12			$ 1,500	$ 14,350
3/18			$ 250	$ 14,100
3/21		$ 300		$ 14,400
3/30			$ 1,700	$ 12,700
3/31			$ 400	$ 12,300

There are two reasons why we use T-Accounts here to explain the posting process. First, students typically find that it is easier to understand both how to complete postings and the impact that they have on an account by examining the T-Account. Second, the likelihood is that you will not use the Balance Column Format in the future, as the majority of companies today utilize computerized accounting systems. These automatically calculate ending balances without the user needing to manually complete the posting process.

Case In Point 3-2 Post Transactions

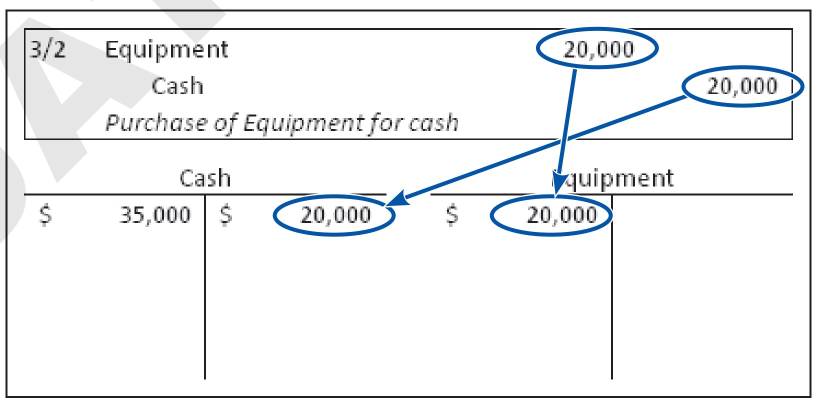
In this example, we will post the transactions that you previously journalized to the respective T-Accounts.

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



The journal entry shown at the top here was created during the previous example. In order to post the two amounts within the journal entry, we first create T-Accounts for the two impacted accounts (Cash & Nathaniel H. Spencer, Capital). We then post (transfer) the amounts from the journal entry to the T-Accounts. We move all debits in the journal entry to the left side (debit side) of the corresponding T-Account, and move all credits in the journal entry to the right side (credit side) of the corresponding T-Account.

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



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
	Purchase of Supplies and Furniture on account		

Supplies

$ 500	

Furniture

$ 1,000	

Accounts Payable

	$ 1,500

4. On March 7, Nathan's Donut School opens for business, and on its first day earns $850 cash.

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

Cash

$ 35,000	$ 20,000
$ 850	

Service Revenue

	$ 850

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
	Payment of accounts payable		

Cash

$ 35,000	$ 20,000
$ 850	$ 1,500

Accounts Payable

$ 1,500	$ 1,500

Notice that, when the previously owed amount 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
	Cooking classes provided on account		

Accounts Receivable

$	2,500		

Service Revenue

		$	850
		$	2,500

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

3/18	Advertising Expense	250	
	Cash		250
	Payment of advertising expenses		

Cash

$	35,000	$	20,000
$	850	$	1,500
		$	250

Advertising Expense

$	250		

8. On March 21, the Company receives $300 on account (in partial payment for the previously-earned amount).

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

Cash

$	35,000	$	20,000
$	850	$	1,500
$	300		250

Accounts Receivable

$	2,500	$	300

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
	Payment of rent expense		

Cash

$	35,000	$	20,000
$	850	$	1,500
$	300	$	250
		$	1,700

Rent Expense

$	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
	Withdrawal of cash by owner		

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

Nathaniel H. Spencer, Drawing			
$	400		

11. Based on the above transactions, we'll now determine the ending balances for each account.

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

Accounts Receivable			
$	2,500	$	300
$	2,200		

Supplies			
$	500		
$	500		

Furniture			
$	1,000		
$	1,000		

Equipment			
$	20,000		
$	20,000		

Accounts Payable			
$	1,500	$	1,500
		$	-

Nathaniel H. Spencer, Capital			
		$	35,000
		$	35,000

Nathaniel H. Spencer, Drawing			
$	400		
$	400		

Service Revenue			
		$	850
		$	2,500
		$	3,350

Advertising Expense			
$	250		
$	250		

Rent Expense			
$	1,700		
$	1,700		

For every T-Account, we calculate a total for each side, subtract the smaller amount from the larger amount, and place the result on the side containing the larger amount. For example, to determine the ending balance within the Cash account, we first add all amounts on the debit side (this gives us $36,150). We then add all amounts on the credit side (this gives us $23,850). When we subtract the smaller amount of $23,850 from the larger amount of $36,150, we arrive at the ending balance of $12,300. This balance is placed on the debit side of the T-Account, as this side had a larger total than the credit side.

Using General & Special Journals

Based on the type of transactions being booked (recorded), journal entries may be recorded within specific journals. Because these **special journals** display all transactions of a specific type, they provide an efficient method for reviewing business activity. Companies can tailor a special journal to their own specific needs.

Journal Types & Corresponding Activity

Journal Name	Activity Displayed Within Journal
Cash Receipts Journal	Journal entries in which cash is received.
Cash Payments Journal	Journal entries in which cash is paid out.
Revenue Journal	Journal entries in which revenue is earned on account (accounts receivable).
Purchases Journal	Journal entries in which purchases are made on account (accounts payable).
General Journal	Journal entries that do not fit within the preceding journals.

Because each special journal is designed to contain the same type of information, they can all take on a more streamlined appearance.

This Cash Receipts Journal displays the partial payment received from SportCo.

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

TIP! As seen in the above figure, Dr. is an abbreviation for *Debit*, and Cr. is an abbreviation for *Credit*.

Within the Cash Receipts Journal, commonly credited accounts (such as Accounts Receivable and Service Revenue here) have a designated column. Any amounts credited to other accounts are displayed within the *Other Accounts Cr.* column.

The remaining special journals, each containing a transaction that you recorded earlier in this chapter, are shown here.

This Cash Payments Journal shows the purchase of Equipment for cash.

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

This Revenue Journal shows revenue earned from SportCo on account.

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

This Purchases Journal shows the purchase of supplies and furniture from Office Place on account.

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

NOTE! The General Journal displays journal entries in the standard manner that you learned earlier in the chapter.

Case In Point 3-3 Identify the Appropriate Journal

In this example, we will identify whether each transaction should be recorded in the Cash Receipts Journal, Cash Payments Journal, Revenue Journal, Purchases Journal, or General Journal.

1. Purchase of equipment for cash.

   Because cash was paid to make this purchase, the transaction would be recorded in the ***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 the ***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 would be recorded in the ***Revenue Journal***.

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

   As cash is being paid to the owner, this transaction would be recorded in the ***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 within any of the four specialized journals, and therefore is recorded in the ***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 would be recorded in the ***Purchases Journal***.

7. Purchase of office furniture in which seller agrees to accept payment at a later date.

   This circumstance is identical to buying office furniture "on account." When we make a purchase on account, the transaction would be recorded in the ***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 would be recorded in the ***Cash Receipts Journal***.

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

   In this transaction, revenue was earned, however payment was not received. This type of transaction would be recorded in the ***Revenue Journal***.

10. You realize that, within a previously completed journal entry, you incorrectly increased the Rent Expense account, when you should have increased the Utilities Expense account instead. You record a journal entry to correct this error.

    There is no subsidiary journal in which this transaction would fit, so it would be recorded in the ***General Journal***.

Using General & Subsidiary Ledgers

Just as journal entries are entered within different journals, T-Accounts are contained within ledgers. Most T-Accounts can be found within the **General Ledger**; however there are two other ledgers that play a prominent role in recording transactions.

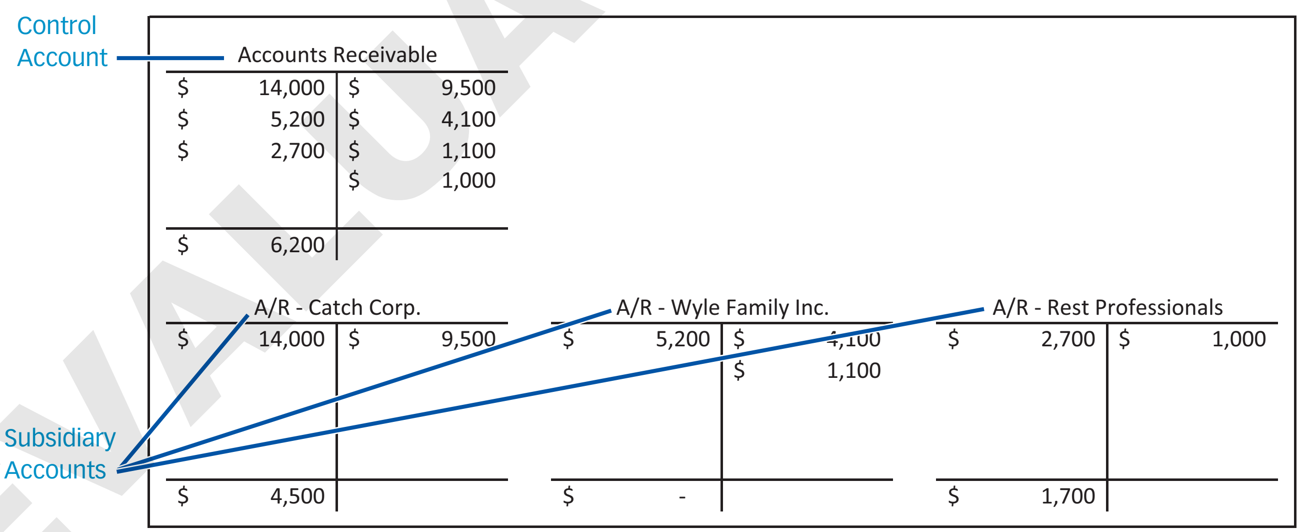
The **Accounts Receivable Subsidiary Ledger** contains an individual accounts receivable T-Account for each company that purchases goods or services on account from a business.

Similarly, the **Accounts Payable Subsidiary Ledger** contains an individual accounts payable T-Account for each company from which a business purchases goods or services on account.

NOTE! The Accounts Receivable Subsidiary Ledger is associated with the Revenue Journal and the Cash Receipts Journal, while the Accounts Payable Subsidiary Ledger is associated with the Purchases Journal and the Cash Payments Journal.

The General Ledger contains **Control Accounts** for Accounts Receivable and Accounts Payable, which display the total balance across the entire business. The subsidiary ledgers mentioned above contain multiple versions of each of these T-Accounts, in which details related to specific outside companies can be examined.

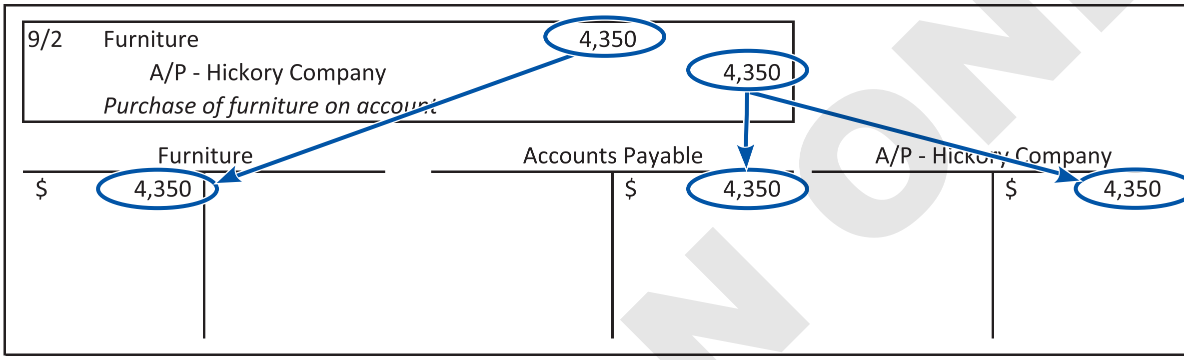
The subsidiary ledger account balances, when added together, equal the total within the general ledger control account.



Case In Point 3-4 Record and Post Accounts Payable Journal Entries

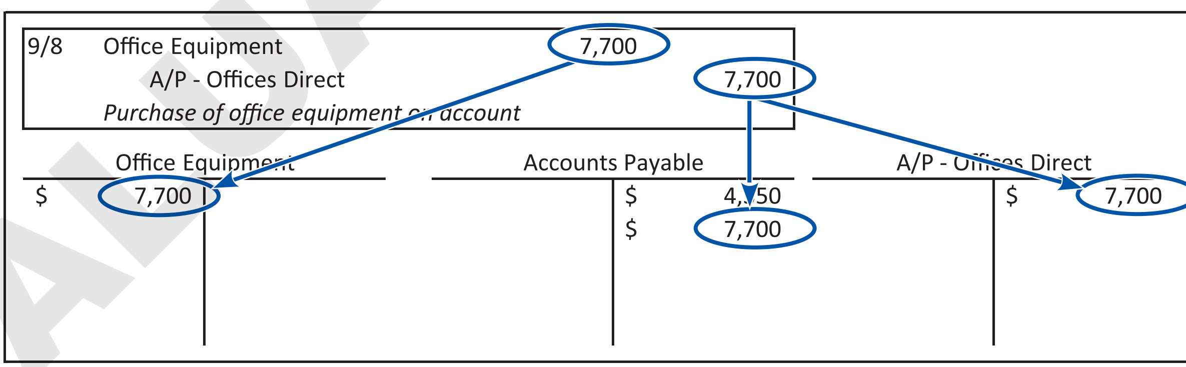
In this example, we will record the necessary journal entry for each transaction, and will post to both the General Ledger and the Accounts Payable Subsidiary Ledger. You will then determine all applicable Accounts Payable balances.

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

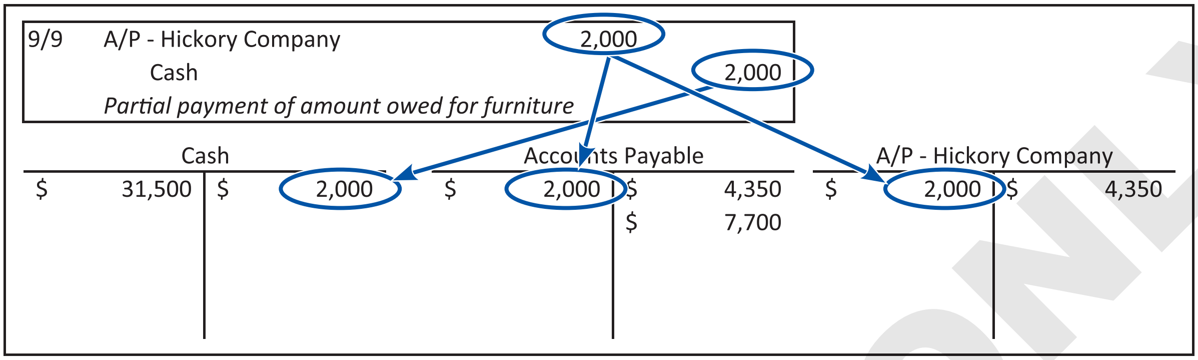


As with any transaction in which furniture is purchased on account, this journal entry debits Furniture and credits A/P – Hickory Company for $4,350. The amount is posted to the general ledger accounts (Furniture & Accounts Payable), and then must also be posted to the applicable subsidiary ledger account. In this instance, the subsidiary ledger account is A/P – Hickory Company, so this T-Account (with its $4,350 posted amount) is also shown here.

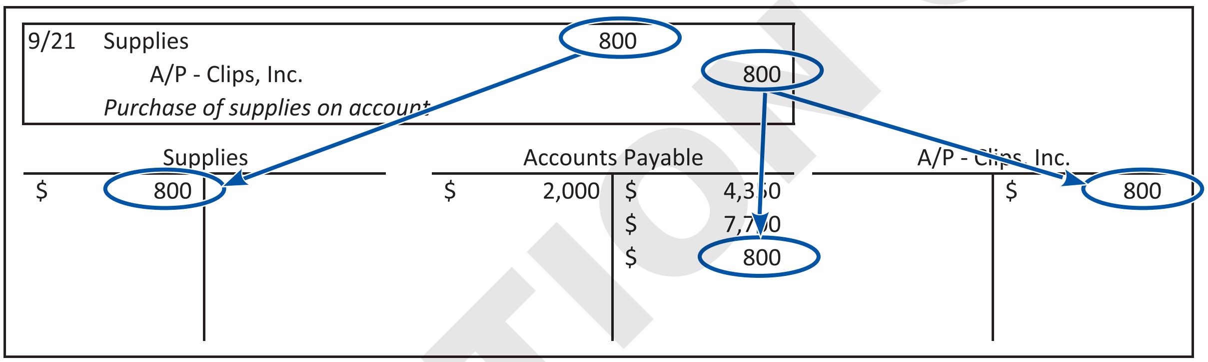
2. On Sept. 8, Office Equipment is purchased for $7,700 from Offices Direct on account.



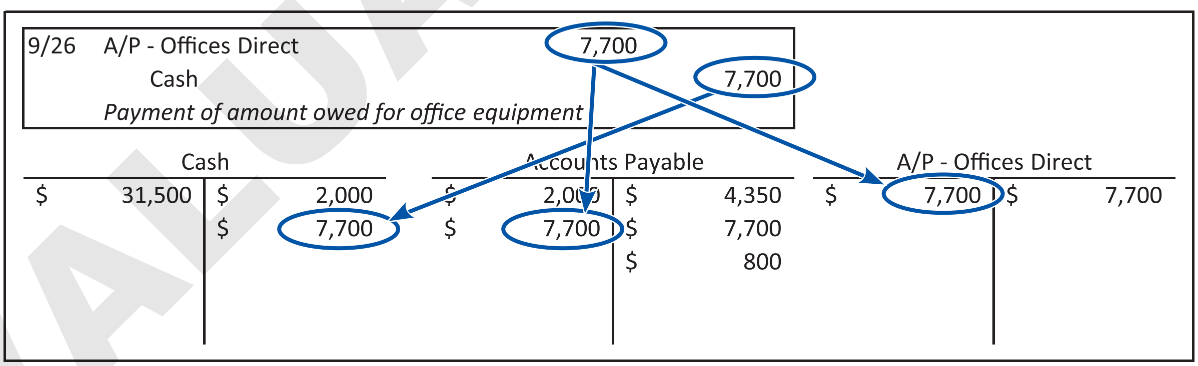
3. On Sept. 9, $2,000 is paid in partial payment of the previously purchased furniture from Hickory Company. Prior to this transaction, the Cash account had a balance of $31,500.



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



5. On Sept. 26, the entire amount owed to Offices Direct for the previously purchased Office Equipment is paid.



6. Determine the ending balances for the Accounts Payable control account, and for each of the three Accounts Payable 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

Concepts Review

To check your knowledge of the key concepts introduced in this chapter, complete the Concepts Review quiz by choosing the appropriate access option below.

If you are...	Then access the quiz by...
Using eLab	Logging in, choosing Content, and navigating to the Concepts Review quiz for this lesson
Not using the Labyrinth Video Library or eLab	Going to the Student Resource Center for this book

Putting It Together

PIT 3-1 Record Journal Entries and Post Transactions

In this example, we will record journal entries, and complete all postings, for the following 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
	Investment by Owner		

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	Inventory	15,000	
	Cash		15,000
	Purchase of inventory for cash		

Cash		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
	Purchase of equipment for cash		

Cash

Debit	Credit
$ 75,000	$ 15,000
	$ 12,000

Equipment

Debit	Credit
$ 12,000	

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

5/5	Rent Expense	1,500	
	Cash		1,500
	Payment of rent expense		

Cash

Debit	Credit
$ 75,000	$ 15,000
	$ 12,000
	$ 1,500

Rent Expense

Debit	Credit
$ 1,500	

5. On May 8, the company purchases $750 of supplies and $2,000 of furniture on account.

5/8	Supplies	750	
	Furniture	2,000	
	Accounts Payable		2,750
	Purchase of Supplies and Furniture on account		

Supplies

Debit	Credit
$ 750	

Furniture

Debit	Credit
$ 2,000	

Accounts Payable

Debit	Credit
	$ 2,750

6. On May 11, Amber's Lacrosse Emporium opens for business, and on its first day sells $2,400 of sporting goods for cash. The cost of the goods sold is $1,350.

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

Cash

$	75,000	$	15,000
$	2,400	$	12,000
		$	1,500

Sales Revenue

		$	2,400

Cost of Goods Sold

$	1,350		

Inventory

$	15,000	$	1,350

7. On May 11, the company pays the $2,750 that was owed from the purchase of supplies and furniture.

5/11	Accounts Payable	2,750	
	Cash		2,750
	Payment of accounts payable		

Cash

$	75,000	$	15,000
$	2,400	$	12,000
		$	1,500
		$	2,750

Accounts Payable

$	2,750	$	2,750

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

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

Cash

Debit	Credit
$ 75,000	$ 15,000
$ 2,400	$ 12,000
$ 1,450	$ 1,500
	$ 2,750

Accounts Receivable

Debit	Credit
$ 3,000	

Inventory

Debit	Credit
$ 15,000	$ 1,350
	$ 2,100

Sales Revenue

Debit	Credit
	$ 2,400
	$ 4,450

Cost of Goods Sold

Debit	Credit
$ 1,350	
$ 2,100	

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

5/14	Advertising Expense	600	
	Cash		600
	Payment of advertising expense		

Cash

Debit	Credit
$ 75,000	$ 15,000
$ 2,400	$ 12,000
$ 1,450	$ 1,500
	$ 2,750
	$ 600

Advertising Expense

Debit	Credit
$ 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
	Receipt of cash owed from prior sale		

Cash (Debit)	Cash (Credit)	Accounts Receivable (Debit)	Accounts Receivable (Credit)
$ 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 wages of $1,600 to its employees.

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

Cash (Debit)	Cash (Credit)	Wages Expense (Debit)	Wages Expense (Credit)
$ 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
	Payment of telephone expense		

Cash (Debit)	Cash (Credit)	Telephone Expense (Debit)	Telephone Expense (Credit)
$ 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
	Payment of utilities expense		

Cash

Debit	Credit
$ 75,000	$ 15,000
$ 2,400	$ 12,000
$ 1,450	$ 1,500
$ 2,100	$ 2,750
	$ 600
	$ 1,600
	$ 135
	$ 200

Utilities Expense

Debit	Credit
$ 200	

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

5/28	Inventory	2,000	
	Accounts Payable		2,000
	Purchase of inventory on account		

Inventory

Debit	Credit
$ 15,000	$ 1,350
$ 2,000	$ 2,100

Accounts Payable

Debit	Credit
$ 2,750	$ 2,750
	$ 2,000

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

5/31	Amber Stein, Drawing	600	
	Cash		600
	Withdrawal of cash by owner		

Cash

Debit	Credit
$ 75,000	$ 15,000
$ 2,400	$ 12,000
$ 1,450	$ 1,500
$ 2,100	$ 2,750
	$ 600
	$ 1,600
	$ 135
	$ 200
	$ 600

Amber Stein, Drawing

Debit	Credit
$ 600	

16. Based on the above transactions, determine the ending balances for each account.

Cash	
$ 75,000	$ 15,000
$ 2,400	$ 12,000
$ 1,450	$ 1,500
$ 2,100	$ 2,750
	$ 600
	$ 1,600
	$ 135
	$ 200
	$ 600
$ 46,565	

Accounts Receivable	
$ 3,000	$ 2,100
$ 900	

Supplies	
$ 750	
$ 750	

Inventory	
$ 15,000	$ 1,350
$ 2,000	$ 2,100
$ 13,550	

Furniture	
$ 2,000	
$ 2,000	

Equipment	
$ 12,000	
$ 12,000	

Accounts Payable	
$ 2,750	$ 2,750
	$ 2,000
	$ 2,000

Amber Stein, Capital	
	$ 75,000
	$ 75,000

Amber Stein, Drawing	
$ 600	
$ 600	

Sales Revenue	
	$ 2,400
	$ 4,450
	$ 6,850

Cost of Goods Sold	
$ 1,350	
$ 2,100	
$ 3,450	

Advertising Expense	
$ 600	
$ 600	

Rent Expense	
$ 1,500	
$ 1,500	

Wages Expense	
$ 1,600	
$ 1,600	

Telephone Expense	
$ 135	
$ 135	

Utilities Expense	
$ 200	
$ 200	

Knowledge Check A

KCa 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 of the T-Account is the side on which the account increases.

1. Accounts Payable: ______________________________
2. Sales Revenue: ______________________________
3. Furniture: ______________________________
4. Advertising Expense: ______________________________
5. Cash: ______________________________
6. Notes Receivable: ______________________________
7. John Doe, Drawing: ______________________________
8. Utilities Expense: ______________________________
9. Supplies: ______________________________
10. Cost of Goods Sold: ______________________________

KCa 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

KCa 3-3 Record Journal Entries

Record journal entries for each of the following transactions.

1. On Aug. 1, Martin Johnson invests $425,000 to open his new appliance repair business.

2. On Aug. 3, the Company pays $150,000 for land and $70,000 for a building.

3. On Aug. 5, Martin repairs appliances for three customers. Two of these paid cash totaling $825, while the third customer was billed $300, but has not yet paid.

4. On Aug. 8, the Company purchases radio advertisements for $3,000.

5. On Aug. 11, the Company purchases a car for $23,000 by taking out an automobile loan.

6. On Aug. 15, Martin repairs appliances for two customers, receiving a total of $500 in cash.

7. On Aug. 20, the Company makes its first automobile loan payment of $475.

8. On Aug. 21, the Company pays $350 for utilities expense.

9. On Aug. 27, the Company pays $2,000 for employee salaries.

10. On Aug. 31, Martin withdraws $10,000 from the business.

KCa 3-4 Post to T-Accounts

Post all journal entries from the preceding exercise (~~KCa 3-3~~) to the appropriate T-Accounts. After completing all postings, determine the ending balances of each account. An Excel template, in which your answer(s) may be recorded, can be found in the Student Resource Center.

1. ______
2. ______
3. ______
4. ______
5. ______
6. ______
7. ______
8. ______
9. ______
10. ______

KCa 3-5 Record Journal Entries & Post to T-Accounts

Record journal entries for each of the following transactions. Then post all journal entries to the appropriate T-Accounts. After completing all postings, determine the ending balances of each account. An Excel template, in which your answer(s) may be recorded, can be found in the Student Resource Center.

1. On Oct. 1, Willy Baker invests $150,000 to open his new furniture refinishing business.

2. On Oct. 2, the Company purchases $18,000 of equipment on account.

3. On Oct. 8, the Company pays employee wages of $1,100.

4. On Oct. 10, Willy refinishes furniture for two customers, receiving $2,200 cash in full payment for the work.

5. On Oct. 11, the Company purchases supplies for $500.

6. On Oct. 14, Willy refinishes furniture for a customer, who agrees to pay the $750 bill within two weeks.

7. On Oct. 17, the Company pays $425 for telephone expense.

8. On Oct. 21, the Company receives $200 in partial payment for the bill from the Oct. 14 services.

9. On Oct. 25, Willy withdraws $430 from the business.

10. On Oct. 29, the Company pays $825 in monthly rent.

KCa 3-6 Interpret Journal Entries Within Special Journals

Rewrite the journal entries within special journals shown below as standard journal entries (in which debits are displayed on top and credits are displayed on the bottom). Note that each special journal contains two journal entries.

1.

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

2.

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

3.

Revenue Journal		
Date	Account Debited	Accounts Receivable Dr. & Sales Revenue Cr.
4/14	AllNight	2,400
4/19	RobbinsCo	785

4.

Purchases Journal					
Date	Account Credited	Inventory Dr.	Supplies Dr.	Account Debited	Other Accounts Dr.
4/9	Fulto, Corp.	6,850			
4/30	BEED, Inc.			Equipment	4,850

KCa 3-7 Record & Post Accounts Receivable Journal Entries

Record the necessary journal entry for each transaction, and post to both the General Ledger Accounts Receivable account, and the Accounts Receivable Subsidiary Ledger accounts. Then determine all applicable Accounts Receivable balances. An Excel template, in which your answer(s) may be recorded, can be found in the Student Resource Center.

1. On Feb. 4, PaleTech Company is billed $3,000 for services performed on account.

2. On Feb. 5, Fernandez Corp. is billed $4,900 for services performed on account.

3. On Feb. 14, Fernandez Corp. pays the entire $4,900 that is owed from the Feb. 5 invoice (bill).

4. On Feb. 23, MoonSite Corporation is billed $2,500 for services provided on account.

5. On Feb. 24, MoonSite Corporation pays $1,000 in partial payment of the Feb. 23 invoice.

6. Determine the ending balances for the Accounts Receivable control account, and for each of the three Accounts Receivable subsidiary accounts.

Knowledge Check B

KCb 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 of the T-Account is the side on which the account increases.

1. Equipment: ______________________
2. John Doe, Capital: ______________________
3. Rent Expense: ______________________
4. Inventory: ______________________
5. Accounts Receivable: ______________________
6. Notes Payable: ______________________
7. Land: ______________________
8. Insurance Expense: ______________________
9. Buildings: ______________________
10. Service Revenue: ______________________

KCb 3-2 Calculate Ending Balances

Calculate the ending balance for each T-Account.

1. John Doe, Capital

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

2. Furniture

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

3. Notes Receivable

Debit	Credit
$ 12,000	$ 3,275
$ 6,500	$ 7,000
$ 7,000	$ 3,200
	$ 2,000

4. Inventory

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

KCb 3-3 Record Journal Entries

Record journal entries for each of the following transactions.

1. On Jul. 1, Katherine Johnson invests $200,000 to open her new antique shop.

2. On Jul. 4, the Company pays $35,000 for inventory.

3. On Jul. 6, the Company purchases supplies on account for $650.

4. On Jul. 7, its first day of operations, the Company sells $1,850 of merchandise for cash. The cost of the merchandise sold is $775.

5. On Jul. 14, the Company pays off the full amount owed for the previously purchased supplies.

6. On Jul. 16, the Company pays $110 for telephone expense.

7. On Jul. 19, the Company sells $2,300 of merchandise for cash. The cost of the merchandise sold is $1,115.

8. On Jul. 22, the Company sells $6,200 of merchandise to a local business on account. The cost of the merchandise sold is $4,000.

9. On Jul. 23, the Company pays $1,250 for employee wages.

10. On Jul. 31, Katherine withdraws $5,500 from the business.

KCb 3-4 Post to T-Accounts

Post all journal entries from the preceding exercise to the appropriate T-Accounts. After completing all postings, determine the ending balances of each account. An Excel template, in which your answer(s) may be recorded, can be found in the Student Resource Center.

1.
2.

3. ______
4. ______
5. ______
6. ______
7. ______
8. ______
9. ______
10. ______

KCb 3-5 Record Journal Entries & Post to T-Accounts

Record journal entries for each of the following transactions. Then post all journal entries to the appropriate T-Accounts. After completing all postings, determine the ending balances of each account. An Excel template, in which your answer(s) may be recorded, can be found in the Student Resource Center.

1. On Nov. 1, Bernard Oliver invests $325,000 to open his new gardening tool boutique.

2. On Nov. 5, the Company pays $57,000 for inventory.

3. On Nov. 8, its first day of operations, the Company sells $3,475 of merchandise on account. The cost of the merchandise sold is $1,900.

4. On Nov. 13, the Company pays $84 for utilities.

5. On Nov. 15, the Company pays $925 for supplies.

6. On Nov. 17, the Company receives $3,000 in partial payment for the goods sold on Nov. 8.

7. On Nov. 20, the Company purchases furniture for $2,000 on account.

8. On Nov. 23, the Company sells $4,800 of merchandise for cash. The cost of the merchandise sold is $3,100.

9. On Nov. 28, the Company receives interest earned on its bank account of $45.

10. On Nov. 29, Bernard withdraws $24,500 from the business.

KCb 3-6 Interpret Journal Entries Within Special Journals

Rewrite the journal entries within special journals shown below as standard journal entries (in which debits are displayed on top and credits are displayed on the bottom). Note that each special journal contains two journal entries.

1.

Cash Receipts Journal					
Date	Account Credited	Accounts Receivable Cr.	Sales Revenue Cr.	Other Accounts Cr.	Cash Dr.
11/15	Interest Revenue			125	125
11/29			800		800

2.

Cash Payments Journal					
Date	Account Debited	Other Accounts Dr.	Accounts Payable Dr.	Supplies Dr.	Cash Cr.
11/4	Buildings	65,000			65,000
11/17	BHV, Corp.		2,750		2,750

3.

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

4.

Purchases Journal					
Date	Account Credited	Inventory Dr.	Supplies Dr.	Account Debited	Other Accounts Dr.
11/23	HomeCo.		1,150		
11/24	Smith Inc.	4,000			

KCb 3-7 Record and Post Accounts Receivable Journal Entries

Record the necessary journal entry for each transaction, and post to both the General Ledger Accounts Receivable account, and the Accounts Receivable Subsidiary Ledger accounts. Then determine all applicable Accounts Receivable balances. An Excel template, in which your answer(s) may be recorded, can be found in the Student Resource Center.

1. On Dec. 1, RNI Incorporated is billed $18,500 for services performed on account.

2. On Dec. 12, Aerial USA is billed $23,200 for services performed on account.

3. On Dec. 16, RNI Incorporated pays $10,000 in partial payment of the Dec. 1 invoice (bill).

4. On Dec. 19, TableMakers Cooperative is billed $9,700 for services provided on account.

5. On Dec. 29, Aerial USA pays the entire $23,200 that is owed from the Dec. 12 invoice.

6. Determine the ending balances for the Accounts Payable control account, and for each of the three Accounts Payable subsidiary accounts.