Case Study: Posting to the General Ledger

by Sophia

:≡	WHAT'S COVERED

This lesson will cover the topic of the general ledger in the context of a case study, using a hypothetical business.

Our discussion breaks down as follows:

1. Case Study: Legacy Realty

The subject company for our case study is called Legacy Realty. Legacy Realty is a sole proprietorship, which is a type of company that is owned by one single individual, and where that individual and the business are legally treated as the same.

The purpose of Legacy Realty as a business is to own, lease, and manage its own rental properties. It purchases houses and condominiums and leases them out to tenants. They also perform their own management of their units. Legacy Realty is located in Washington DC, and they have a small staff of five people.

Legacy Realty	
Type of company	Sole proprietorship
Business purpose	Own, lease, and manage rental properties
Business location(s)	Washington, D.C. Staff of 5 people

Legacy Realty needs a general ledger to serve as the accounting system where entries are posted. Those entries come from the general journal, and its journal entries. The general ledger provides summary data for all of the accounts, as well as the rolling totals. It also provides the information for the financial statements, meaning Legacy Realty can't create those financial statements without a proper general ledger.

2. Case Study: General Ledger Entries

Now let's look at some general ledger entries for our subject company, using some case study transactions. The first transaction is an owner contribution of $200,000 for initial funding, because the company needs money to purchase properties and fund its operations.

What would the general ledger entry look like for this transaction? We know cash is coming in. The entry must also include that unique identifier--number 101--from the chart of accounts. Remember, this is the unique identifier for the cash account so that we can pinpoint it in the financial system. We put in the date and description--in this case, owner contribution--and the reference. The reference column comes from the specific journal entry within the general journal. Since cash is going up, it is going to be a $200,000 debit, which leaves a balance of $200,000 in the cash ledger.

Next, let's look at owner's capital, since the business is funding cash with equity. Note the same date, same description, and same journal entry reference. Since it is equity, it's going to be increased with a credit. This leaves a balance of $200,000 in the owner's capital account.

Owner $200,000 contribution for initial funding

General Ledger

CASH — No. 101

Date	Description	Ref	Debit	Credit	Balance
1/1/13	Owner contribution	J1	200,000		200,000

OWNER'S CAPITAL — No. 600

Date	Description	Ref	Debit	Credit	Balance
1/1/13	Owner contribution	J1		200,000	200,000

The second transaction involves a purchase of their first property for $75,000, in order to invest funds in the business's purpose and start generating revenue. The first ledger will be buildings. They are purchasing property, so they're going to have an asset--Building A. Note the journal entry reference. Since it's an asset, it's going up, so $50,000 goes in the debit column, and leaves a balance of $50,000.

Now, they're also going to have land, because a property purchase includes the building as well as the land the building sits on, which is also an asset. It's the same journal entry reference and it's also a debit, because it's an asset; it has a $25,000 balance in the land ledger.

They're going to pay for it with cash. You can see the previous transaction in the cash ledger, and now they're going to add this purchase. Since cash is going down, it's an asset, so it is a credit. You can see in the cash ledger, that they are left with a balance of $125,000.

⚙ **THINK ABOUT IT**

Do you see the rolling total concept, that was discussed previously, at work here?

Purchase 1st property for $75K

General Ledger

BUILDING   No. 300

Date	Description	Ref	Debit	Credit	Balance
1/31/13	Building A	J2	50,000		50,000

LAND   No. 350

Date	Description	Ref	Debit	Credit	Balance
1/31/13	Land - Building A	J2	25,000		25,000

CASH   No. 101

Date	Description	Ref	Debit	Credit	Balance
1/1/13	Owner contribution	J1	200,000		200,000
1/31/13	Purchase - Bldg A	J2		75,000	125,000

For the third transaction, the business is going to perform $5,000 of repairs to their property, before they lease it. They need to do this to ensure that their property is in adequate condition, in order to lease and begin generating revenue.

By performing $5,000 of repairs, they are incurring an expense, so this is what is recorded in the general ledger. Because expenses are increased with debits, they're going to put that $5,000 in the debit column, leaving a balance of $5,000.

So, if they are paying cash for these repairs expenses, they also need to add this entry to their cash--same date, same description, and same journal entry reference. Since cash is going down, the $5,000 goes in the credit column, bringing the cash balance down to $120,000.

Perform $5,000 of repairs to property before leasing

General Ledger

REPAIRS EXPENSE — No. 905

Date	Description	Ref	Debit	Credit	Balance
2/2/13	Bldg A Repairs	J3	5,000		5,000

CASH — No. 101

Date	Description	Ref	Debit	Credit	Balance
1/1/13	Owner contribution	J1	200,000		200,000
1/31/13	Purchase - Bldg A	J2		75,000	125,000
2/2/13	Bldg A Repairs	J3		5,000	120,000

The fourth entry involves a purchase of $500 worth of office supplies, on account, because the office needs basic office supplies in order to operate. They are incurring an expense, so the ledger reflects office expense, for those supplies. The $500 goes in the debit column, because expenses are increased with debits, leaving a $500 balance.

So, what is the other ledger going to be? Well, the key words here are "on account." This means that they are going to have an accounts payable or a liability. Again, they use the same date, same description, and same reference. Because it is a liability, and it's going up, they're going to put that $500 in the credit column, leaving a balance of $500 in the accounts payable ledger.

Purchase $500 of office supplies on account

General Ledger

OFFICE EXPENSE					No. 910
Date	Description	Ref	Debit	Credit	Balance
2/5/13	Office Supplies	J4	500		500

ACCOUNTS PAYABLE					No. 301
Date	Description	Ref	Debit	Credit	Balance
2/5/13	Office Supplies	J4		500	500

In the last transaction, Legacy Realty is going to lease their property and collect the first month's rent of $1,500. Again, this is the primary way that the business generates revenue.

They collected cash, so you can see the cash ledger, which reflects all of the past transactions. Now, they're going to add this collection of rent: date, March rent, Building A, and journal entry reference. Because cash is going up, the $1,500 goes in the debit column. This actually brings the cash balance up to $121,500.

Since the business is collecting rent, this is considered revenue for the business. Therefore, this goes in the revenue ledger. Since revenues are increased with credits, $1,500 goes in the credit column, leaving a balance in the revenue ledger of $1,500.

Collect 1st month's rent of $1,500

General Ledger

CASH   No. 101

Date	Description	Ref	Debit	Credit	Balance
1/1/13	Owner contribution	J1	200,000		200,000
1/31/13	Purchase - Bldg A	J2		75,000	125,000
2/2/13	Bldg A Repairs	J3		5,000	120,000
3/1/13	March Rent - Bldg A	J5	1,500		121,500

REVENUE   No. 700

Date	Description	Ref	Debit	Credit	Balance
3/1/13	March Rent - Bldg A	J5		1,500	1,500

☑ **SUMMARY**

Today we introduced a **case study** company called **Legacy Realty,** that is in the business of owning and leasing their own rental properties. We looked at several **examples of general ledger entries**: owner contribution, purchasing property, performing repairs to that property and paying with cash, purchasing office supplies with cash, and collecting a first month's rent.

Source: Adapted from Sophia instructor Evan McLaughlin.