Journal Entries

by Sophia

WHAT'S COVERED

This tutorial will review the general journal and journal entries, as well as discuss journal entries in more detail through examples.

Our discussion breaks down as follows:

1. General Journal and Journal Entries: A Review

Let's start with a review of the general journal. The general journal is the original book of entry. It contains the transaction detail for accounting events in a chronological order.

Journal entries are specific changes to accounts--meaning the debits and credits. Journal entries derive their name from their use within the general journal. Referring back to the accounting cycle, you may recall that it starts with analysis, so if you perform your analysis and determine that there is an accounting event, the next step would be to journalize the transaction. It's important to remember that there are no journal entries until accounting events have taken place.

2. Journal Entries: Examples

Let's explore some examples of creating journal entries.

Transaction: Purchase $10,000 of equipment for cash
Suppose you have a transaction, where you purchased $10,000 of equipment for cash. Which accounts do you think are involved?

Well, you know that you're going to have equipment. You're purchasing an asset, so your assets are going up. Remember, the reference number is from your chart of accounts, so in this case, account number 3001 shows a debit of $10,000.

You must also reflect at least one credit. In this case, you are paying cash, so you must show a credit to your cash account of $10,000. Now you have your journal entry within your general journal for this transaction.

General Journal — J101

Date	Account Title	Ref	Debit	Credit
9/1/13	EQUIPMENT	3001	10,000	
	CASH	1001		10,000

Transaction: Purchase $10,000 of equipment on account
For the next transaction, you purchased $10,000 of equipment, but on account. You use the same date as before. Which accounts do you think are involved?

You know that you're purchasing equipment, so your equipment's going up with a $10,000 debit.

However, to what account is your credit going to be? It's not cash in this case. Since it's on account, it's going to be accounts payable. It's a liability, or money that is owed, and liabilities are increased with credits. Therefore, you have a $10,000 debit to equipment and a $10,000 credit to accounts payable. It is important to note that the unique identifier for a journal entry here is J102. That unique identifier changes with each transaction that you are adding to your general journal.

General Journal — J102

Date	Account Title	Ref	Debit	Credit
9/1/13	EQUIPMENT	3001	10,000	
	ACCOUNTS PAYABLE	4001		10,000

Transaction: Partial $5,000 payment for equipment purchased on account
For this transaction, you are making a partial payment of $5,000 for that equipment that you just

purchased on account. What accounts do you think are involved in this case?

Well, if you're paying down a liability, that must mean you have to debit your accounts payable.

In addition, if you're paying cash for that, it means that your cash is also going down. Therefore, you have a credit to cash of $5,000.

General Journal J103

Date	Account Title	Ref	Debit	Credit
9/1/13	ACCOUNTS PAYABLE	3001	5,000	
	CASH	1001		5,000

Transaction: Payment for $10,000 of equipment purchased on account
Moving on, if you have a payment for $10,000 of equipment purchased on account, what if you paid the entire balance owed for that equipment that you purchased on account?

Similar to the last entry that you made, it involves accounts payable. You are paying off your entire balance, so you're paying all $10,000. Again, the liabilities are reduced by debits, so there is a $10,000 debit to accounts payable.

You also must have a credit to cash, because you are paying cash. Therefore assets--because cash is an asset--are reduced by credits, so you have a credit to cash of $10,000.

General Journal J104

Date	Account Title	Ref	Debit	Credit
9/1/13	ACCOUNTS PAYABLE	3001	10,000	
	CASH	1001		10,000

Transaction: Withdrawal of $2,000 cash by owner
Now, what if there is a withdrawal of $2,000 cash by the owner of the business? What accounts do you think are involved in this case?

Owner's draws are a reduction of equity; because the owner is pulling cash out, his or her equity is going down. This is recorded with a $2,000 debit within the journal entry.

Regarding the credit, if he or she is taking cash out, that must mean cash is going down. Assets are reduced by credits, so there is a $2,000 credit to the cash account.

General Journal J105

Date	Account Title	Ref	Debit	Credit
9/1/13	OWNER'S DRAWS	6001	2,000	
	CASH	1001		2,000

Transaction: Receipt of $20,000 cash for future services
The next transaction is a receipt of $20,000 cash for future services. You are receiving $20,000 cash now for services that you are going to perform in the future, but haven't done yet. What accounts do you think are involved in this case?

You know if you're receiving cash, that must mean your assets are going up. Therefore, you would debit your cash account.

However, what do you think the credit is to? It is for future services that haven't been performed yet, so it wouldn't be revenue. It would be *unearned* revenue. Therefore, it is a liability, because you haven't performed those services yet, but you have an obligation to perform them because you've been paid. Since liabilities are increased with credits, there is a credit to your unearned revenue.

General Journal J106

Date	Account Title	Ref	Debit	Credit
9/1/13	CASH	1001	20,000	
	UNEARNED REVENUE	4500		20,000

Transaction: Payment of $1,000 for future expense
The last transaction we're going to look at today is a payment of $1,000 cash for a future expense. What are you doing with your expense?

You are pre-paying the expense, which is an asset. It gets recorded with a $1,000 debit in your journal entry within our general journal.

What about your offsetting credit? You paid $1,000 cash, which must mean that your cash is going down. Therefore, you would credit cash for $1,000.

General Journal J106

Date	Account Title	Ref	Debit	Credit
9/1/13	PREPAID EXPENSE	2001	1,000	
	CASH	1001		1,000

HINT

Supplies, rent, and insurance payments that are made in advance are prepaid expenses. The cost of these items is recorded as an asset at the time of purchase and is then gradually expensed over the period of use or benefit.

SUMMARY

Today we conducted a **review of the general journal and journal entries**. We also explored several **examples of journal entries**, including entries to cash, equipment, prepaid expense, accounts payable, deferred revenue and owner's draws.

Source: Adapted from Sophia instructor Evan McLaughlin.