**Chapter 2 – Recording Journal Entries**

**General Ledger Accounts**

Each type of asset, liability and owner’s equity is kept in a separate account in an accounting record called the “General Ledger.” Each account records all of the transactions associated with it—whether the account increased or decreased. For example, the cash account would record all transactions associated with it and it alone. The same holds true for accounts receivable, equipment, accounts payable, salaries payable, owner’s withdrawals, each type of revenue and each type of expense.

We will not be using general ledger software in this class, so we will be substituting an accounting convention called the “T account” to depict what transpires in the general ledger.



The T account is shaped like a “T” and amounts are recorded on the left or right side of the dividing line. Which side the amount is entered into is governed by rules associated with each type of account. The next page shows the accounts we have learned so far and their rules. If the amount is to be entered on the left-hand side, it is a debit; if it is to be entered on the right-hand side, it is a credit. Each account’s rules determine where to place the information and are based on whether the account is increasing or decreasing. Each account is different; although, there are some general similarities.

We will memorize these rules and have quizzes on them continuously so these concepts will be available to you until you begin to understand the theory behind debits and credits.

**Remember the accounting equation?** Generally, the theory is:



There will be exceptions, but the general rules will apply most of the time. This is what we will memorize and will the basis for your quizzes. We will add accounts as we move from chapter to chapter. Each chapter in Canvas will have its own account equation memorization.



**Account normal balances**

Whatever increases an account is considered to be its normal balance. Very important to learn this as tests will refer to the normal balance of an account.





Using cash as an example, when cash increases, the increase is reflected on the left or debit side; therefore, increases in cash are recorded with a debit. When cash decreases, the decrease is reflected on the right or credit side; therefore, decreases in cash are recorded with a credit.



Using accounts payable as an example, when accounts payable increase, the increase is reflected on the right or credit side; therefore, increases in accounts payable are recorded with a credit. When accounts payable decrease, the decrease is reflected on the left or debit side; therefore, decreases in accounts payable are recorded with a debit. When you charge AP increases. When you pay the bill, AP decreases.

**The Chart of Accounts**

Every company will maintain a chart of accounts which is a listing of all accounts grouped by type such as asset, liability, owner’s equity, revenue and expense. The accounts are numbered by type. A conventional numbering system is 100’s for assets, 200’s for liabilities, 300 for owner’ equity, 400 for revenue and 500 for expenses.

**Recording transactions – Journal Entries**

Although we used a one-page expanded accounting equation format to record transactions in Chapter 1, this format is not used in practice. Its purpose was to show you how information flows and was useful to see everything on one page. However as the number of accounts expand; you could easily see this format is unwieldy. Instead, companies use a daily diary of all transactions called a general journal. The amounts from the general journal are then transferred to the general ledger.

 **JOURNAL**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | date | description | POST. ref. | debit | credit |  |
| **1** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **1** |
| **2** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **2** |
| **3** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **3** |
| **4** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **4** |
| **5** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **5** |
| **6** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **6** |
| **7** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **7** |
| **8** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **8** |

In the general journal, the date is recorded first. Then the account is listed such as cash, accounts receivable, accounts payable, etc. The posting reference would be used once the amounts are transferred to the general ledger for help in locating where the information can be found. The posting reference is the account number from the chart of accounts. Then, the debit is entered first as an absolute number (no minuses or parentheses). **The debit always goes first whether it is increasing or decreasing the account.** Then on the next line, **there is an indentation of a few spaces** and the credit amount is entered as an absolute number. There must be at least one debit and at least one credit associated with each transaction—though there could be more than one debit or credit. On the third line a brief description is added as a reminder and for other users of the document.



This is an example that does not contain a date or descriptions. For the sake of brevity, we will not use dates and descriptions in this course.

**Posting to the General Ledger**

The amounts from the general journal are then transferred to the general ledger usually journal entry by journal entry to ensure accuracy.

This process continues until it is time to prepare financial statements. When it is time to prepare financial statements, the T accounts or general ledger balances must be determined. Since we are using T accounts instead of a general ledger, we will follow these three rules to determine the balance in the T account.

**Rules for determining T Account balances:**

1. Add up all the debits
2. Add up all the credits
3. Take the smaller from the larger. This is the balance.



**The Unadjusted Trial Balance**

Once each T account’s balance has been determined, then it is time to make sure all the debits equal the credits and that **all account balances are normal balances**.

