#### **Chapter 4 • The General Journal and the General Ledger**

#### **TEACHING OBJECTIVES**

- **4-1**) Record transactions in the general journal.
- **4-2**) Prepare compound journal entries.
- **4-3**) Post journal entries to general ledger accounts.
- **4-4**) Correct errors made in the journal or the general ledger.
- **4-5**) Define the accounting terms new to this chapter.

#### SECTIONS

- 1. The General Journal
- 2. The General Ledger

#### **CHAPTER OVERVIEW/ LEARNING OBJECTIVES**

Learning Link: Chapter 3 explained T accounts and the trial balance, and their usefulness in the preparation of financial statements. Chapter 4 introduces accounting journals, the general ledger, and shows how to use both.

- **4-1.** This chapter introduces the General Journal and the procedures necessary to record transactions in the General Journal. Recording transactions is called *Journalizing*. A journal is a chronological record of daily transactions which includes an explanation.
- **4-2.** This chapter discusses how a transaction might require a compound general journal entry. All debits are recorded first, followed by the accounts being credited.
- **4-3.** The chapter introduces the General Ledger. The posting procedure is explained. Posting is the transfer of data from the General Journal to the General Ledger.
- **4-4.** This chapter explains what to do when errors are located in the journal or the ledger. A correcting entry is journalized and posted to correct a mistake which was previously posted.

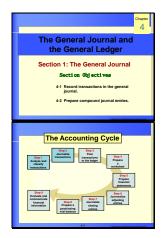
At the beginning of the chapter, there is a short paragraph about *Boeing and the International Space Station.* Let's read this together...

Ask. . . "How could Boeing take on such a huge task of becoming the prime contractor of such a global project? What accounting challenges would Boeing face?"

Answer-- Students should recognize that in order to keep track of such a large number of expenditures, it's very important for an accounting system to grow and expand with the multitier of tasks and projects.

### FAST FACTS

- Boeing is the prime Contractor of the ISS or International Space Station.
- This global project involves the scientific and technological resources of over 100,000 people from 16 countries.
- The project's initial expenditures totaled over 150 Billion. This created a huge accounting challenge to keep track the expenditures.
- In 2010, Boeing "handed over the keys" to NASA.



Journal

A journal is a diary of business activities There are different types of accounting

# Section 1. THE GENERAL JOURNAL

**Objective 4-1** 

## Journals

- Explain that in the real world, transactions are not recorded using the accounting equation, nor are they recorded using T-accounts.
- Recall that a T-account is an instructional tool used in the classroom. Instead, businesses use a *Journal* to record business transactions.

Ask, "Can anyone remember your grade-school teacher asking you to keep a journal of your daily activities?"

• Point out that accounting journals are used to record business transactions.

# The General Journal

 Explain that the general journal is a diary of a business--a chronological record of a company's business transactions.

Ask, "Why would a chronological record of business transactions be important to a business?"

 Point out to students that when a transaction is being entered in the general journal it is called *journalizing*.

Section	
Section	

**Topics/ Discussion** 

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- Describe the <u>order/steps of the journalizing</u> process:
  - a. Record the year first, then the month and day.
  - b. Record the debited account(s) first.
  - c. Indent about one-half inch and record the credited account(s).
  - d. Indent again and write the explanation.
- Point out the importance of the page numbering.
- Tell students that after the first entry, the year and month are recorded only when a new page is begun or when the month or year changes.
- Remind students that the description of a general journal entry should refer to the source of the information. (examples: check no., invoice no., etc)
- Document numbers in the description are part of the *audit trail*.
- Ask, "Can anyone guess what an *audit trail* is?"

Answer—it is a chain of references that make it possible to trace information, locate errors, and prevent fraud.

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Business						
1. Analyze the financial event. • Identify the accounts affected	d.					
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affected. 2. Apply the rules of debit and	affected. 2. Apply the rules of debit and credit. • Which account is debited? For what amount?					
• Which account is credited? For what amount?						
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## Managerial Implications:

Ask students, "Can you think of three situations you might encounter in which you need to 'follow' the audit trail?"

Answers-may include:

- Research a payment to a vendor. (Vendor says no payment was received.)
- Research outstanding customer account. (Customer says check was sent.)
- Research customer billing. (Customer says no invoice was received.)

## ♦ <u>Recording Transactions in the General</u> <u>Journal</u>

- In chapters 2 and 3 you learned how to analyze a transaction so that you could record it in the accounting equation or in Taccounts.
- You use the same steps to analyze a transaction and record it in a general journal.

☆ Review the steps to analyze and record journal entries.

- (1) Analyze the financial event.
- (2) Apply the rules of debit and credit.
- (3) Make the entry in T account form.
- (4) Record the complete entry in general journal form.



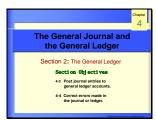
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Remind the students that these are the same transactions that they recorded in t accounts in chapter 3. Now, in this chapter, we are recording them formally in a general journal.

#### Objective 4-2

- ◆ <u>Preparing Compound Entries</u>
  - Point out to students that sometimes transactions involve more than two accounts. If three or more accounts are affected, this is called a compound journal entry.
  - In a compound entry, you record all the debits first, and then show the credited account(s).
  - Have students work some end of chapter exercises in class so that you can assess their understanding of the chapter so far.







	Posting
QUEST	ION:
	What is posting?
ANSW	ER:
	Posting is the process of
	transferring data from a journal to a ledger.
	lougon
	422 (1997)



# Section 2. THE GENERAL LEDGER

## Ledgers

• Have students look up the definition of ledger in the Glossary of this text.

Ask, "Can anyone explain the definition in their own words?"

- Explain that in chapter 3 you were introduced to T accounts which are used in the classroom to illustrate how to record a transaction.
- In real life however, the T account does not exist. Instead we use *ledgers*.
- The *general journal* is the record of <u>original</u> entry. The *ledger* is the record of <u>final</u> entry.
- The process of transferring data from the journal to the ledger is called *posting*.

Section

		Ledg	er /	Acco	ount	For	ns	
On th	e ledger	account	form	shown	below,	notice t	he:	
• Acc	ount na	me and n	umbr	er.				
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## ◆ <u>The General Ledger</u>

• Tell students to look at the column headings in a general ledger account. Review these with them.

## Ledger Account Forms

- Explain that there are different types of general ledger account forms. We will be using a balance ledger form.
- The balance ledger form has columns that are similar to the general journal but there is an additional set of columns which are the *Balance Columns*.
- Using one of the chapter transparencies that depicts a general ledger, draw a "T" in the "action columns" of the ledger.
- Point out that the set of columns before the balance column looks like the T account which we have used earlier.

#### **Objective 4-3**

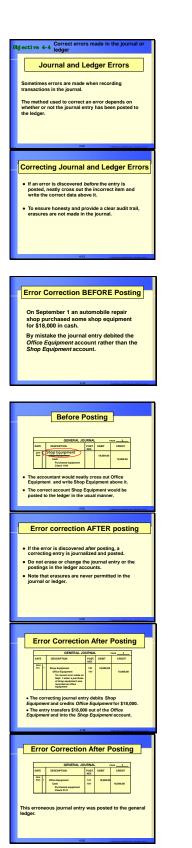
- Posting to the General Ledger
  - Demonstrate the <u>steps</u> to post to the general ledger:
    - (1) On the ledger form enter the date of the transaction.
    - (2) Enter the general journal page in the Post. Ref. column.
    - (3) Enter the debit amount in the Debit column or the credit amount in the

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Steps for Posting

Step 2: On the ledger form, enter the general journal page in the Posting Reference column. The letter J refers to the general journal.
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2016 Nov. 7 J1 5,000,00 5,000,00
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427
Step 3: On the ledger form, enter the debit amount in the Debit column or the credit amount in the Credit column.
the credit amount in the Credit column.
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DATE DESCRIPTION REF. DEBIT CREDIT DEBIT CREDIT
2016 Nov. 7 J1 5,000.00 5,000.00
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Step 4: On the ledger form, compute the balance and enter it in the Debit
Balance column or the Credit Balance column.
GENERAL JOURNAL PAGE 1
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Purchased equipment Check 1981
ACCOUNT ACCOUNT NO
DATE DESCRIPTION REF. DEBIT CREDIT DEBIT CREDIT
2016 Nox 7 J1 (5,000.00) (5,000.00)
422
Step 5: On the general journal, enter the ledger account number in the Posting Reference column.
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ACCOUNT Equipment ACCOUNT NO. 141
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Nov. 7 J1 5,000.00 5,000.00
4-30 ERELATION ARTICLASS AND
General Ledger Accounts
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- (4) credit column. Compute the balance and enter it in the appropriate column.(5) On the general journal enter the
- account number.



#### **Objective 4-4**

## **Correcting Journal and Ledger Errors**

- Explain that sometimes errors are made when recording transactions in the journal.
- Erasures are <u>never</u> permitted in the journal or ledger.
- If the error is discovered *before* posting, cross out the incorrect item and write the correct data above it.
- If the error is discovered *after* posting, a <u>correcting</u> journal entry must be made.



Let students know that when they are in a business setting, they should NOT erase errors. However, when students are doing their homework, they can <u>certainly</u> erase.

## ♦ <u>Section Wrap-up</u>

Present the following situation to your class: "You are one of the accountants for a catering business. You notice a discrepancy between the general journal and the general ledger. How would you verify the dates and amounts in question?" (Students should locate the source documents, verify the dates, account, and amounts recorded in the general journal, then trace the entry components to the appropriate general ledger amounts.)