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**

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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.
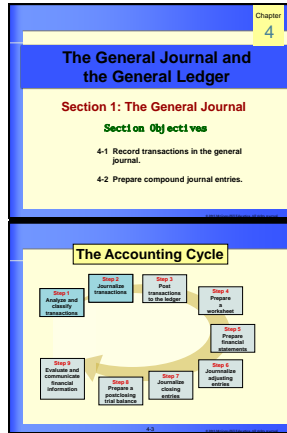
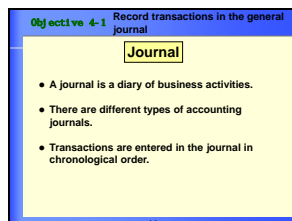# Section 1. THE GENERAL JOURNAL
Objective 4-1

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*.

- **Describe the <u>order/steps of the journalizing process</u>:**
  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.

Recording a Business Transaction

1. Analyze the financial event.
   - Identify the accounts affected.
   - Classify the accounts affected.
   - Determine the amount of increase or decrease for each account affected.
2. Apply the rules of debit and credit.
   - Which account is debited? For what amount?
   - Which account is credited? For what amount?
3. Make the entry in T-account form.
4. Record the complete entry in general journal form.

Cash Investment by Owner

On November 6 Carolyn Wells withdrew $100,000 from personal savings and deposited it in a new business checking account for Wells' Consulting Services.

Cash Purchase of Equipment

On November 7 Wells' Consulting Services issued Check 1001 for $5,000 to purchase a computer and other equipment.

Purchase of Equipment on Credit

On November 10, Wells' Consulting Services purchased office equipment on account for $6,000.

Cash Purchase of Supplies

On November 28, Wells' Consulting Services purchased supplies for $1,500, Check 1002.

Payment to a Creditor

On November 30, Wells' Consulting Services paid Office Plus $2,500 in partial payment of Invoice 2223, Check 1003.

Recording a prepayment of rent

On November 30, Wells' Consulting Services wrote Check 1004 for $8,000 to prepay rent for December and January.

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.)

♦ **Recording Transactions in the General Journal**

- In chapters 2 and 3 you learned how to analyze a transaction so that you could record it in the accounting equation or in T-accounts.
- 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.

Recording a prepayment of rent

On November 30, Wells' Consulting Services wrote Check 1004 for $8,000 to prepay rent for December and January.

	GENERAL JOURNAL			PAGE 1
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
Nov. 30	Prepaid Rent		8,000.00	
	Cash			8,000.00
	Paid Dec. and Jan. rent in advance; Check 1004			

Services performed for cash

Wells' Consulting performed services for $36,000 in cash.

	GENERAL JOURNAL			PAGE 2
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
2016 Dec. 31	Cash		36,000.00	
	Fees Income			36,000.00
	Performed services for cash			

Performed services on account

Wells' Consulting performed services on account for $11,000.

	GENERAL JOURNAL			PAGE 2
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
Dec. 31	Accounts Receivable		11,000.00	
	Fees Income			11,000.00
	Performed services on credit			

Received Cash From Credit Clients

Received $6,000 in cash from a credit client on account.

	GENERAL JOURNAL			PAGE 2
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
Dec. 31	Cash		6,000.00	
	Accounts Receivable			6,000.00
	Received cash from credit clients on account			

Paid Salaries

Paid $8,000 for salaries.

	GENERAL JOURNAL			PAGE 2
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
Dec. 31	Salaries Expense		8,000.00	
	Cash			8,000.00
	Paid monthly salaries to employees, Checks 1005-1006			

Owner's Withdrawal

The owner, Carolyn Wells, withdrew $5,000 from the company.

	GENERAL JOURNAL			PAGE 2
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
Dec. 31	Carolyn Wells, Drawing		5,000.00	
	Cash			5,000.00
	Owner withdrew cash for personal expenses, Check 1008			

Paid Utility Bill

Wells' consulting paid $650 in cash for a utility bill.

	GENERAL JOURNAL			PAGE 2
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
Dec. 31	Utilities Expense		650.00	
	Cash			650.00
	Paid monthly bill for utilities, Check 1007			

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

♦ **Preparing Compound Entries**

- 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.

Owner's Withdrawal

The owner, Carolyn Wells, withdrew $5,000 from the company.

Section 2. THE GENERAL LEDGER

Ledgers

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

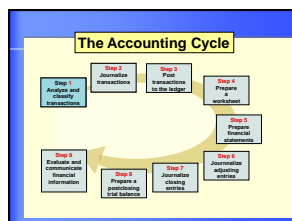 Ask, "Can anyone explain the definition in their own words?"

- 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***.

♦ The General Ledger

- 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 **steps** 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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Step 2: On the ledger form, enter the general journal page in the Posting Reference column. The letter J refers to the general journal.

Step 3: On the ledger form, enter the debit amount in the Debit column or the credit amount in the Credit column.

Step 4: On the ledger form, compute the balance and enter it in the Debit Balance column or the Credit Balance column.

Step 5: On the general journal, enter the ledger account number in the Posting Reference column.

General Ledger Accounts

In the general ledger accounts, the balance sheet accounts appear first and are followed by the income statement accounts. The order is:

● Assets
● Liabilities
● Owner's equity
● Revenue
● Expenses

This order of accounts speeds the preparation of the trial balance and the financial statements.

(4) credit column. Compute the balance and enter it in the appropriate column.

(5) On the general journal enter the account number.

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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.

Objective 4-4 Correct errors made in the journal or ledger

Journal and Ledger Errors

Sometimes errors are made when recording transactions in the journal.

The method used to correct an error depends on whether or not the journal entry has been posted to the ledger.

Correcting Journal and Ledger Errors

- If an error is discovered *before* the entry is posted, neatly cross out the incorrect item and write the correct data above it.
- To ensure honesty and provide a clear audit trail, erasures are not made in the journal.

Error Correction BEFORE Posting

On September 1 an automobile repair shop purchased some shop equipment for $18,000 in cash.

By mistake the journal entry debited the *Office Equipment* account rather than the *Shop Equipment* account.

Before Posting

- The accountant would neatly cross out Office Equipment and write Shop Equipment above it.
- The correct account Shop Equipment would be posted to the ledger in the usual manner.

Error correction AFTER posting

- If the error is discovered *after* posting, a correcting entry is journalized and posted.
- Do not erase or change the journal entry or the postings in the ledger accounts.
- Note that erasures are never permitted in the journal or ledger.

Error Correction After Posting

- The correcting journal entry debits *Shop Equipment* and credits *Office Equipment* for $18,000.
- The entry transfers $18,000 out of the *Office Equipment* and into the *Shop Equipment* account.
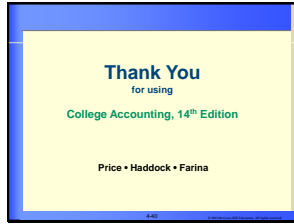

Error Correction After Posting

This erroneous journal entry was posted to the general ledger.

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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.)