

Assets, Liabilities, and Owner's Equity : The Books of Accounting

Lesson 1 Overview

You learned how the accounting equation operates and that a major application of the accounting equation is the balance sheet. You also learned how to apply the accounting equation effectively to correct accounting procedures. Now you can identify the procedures, as well as prepare a balance sheet.

In this lesson, you'll learn about the general journal and the general ledger. The journal keeps a chronological record of the daily transactions of a business. The ledger is a record of the transactions of a business, arranged by individual account.

1.1 Describe the order, source, and method of making journal entries

The Journal

READING ASSIGNMENT

Introduction

You know that the balance sheet tells you the financial condition of a company at any given point in time. Furthermore, comparing balance sheets for two consecutive accounting periods enables you to determine

what's happening (financially) in the business. The balance sheet is a picture of a business in financial terms.

The two balance sheets shown here give you two pictures of Tom's Lawn Service; on June 1, and another on June 30. You can see from these how Tom's business assets, liabilities, and owner's equity have changed during this business period. Take a careful look at these balance sheets and determine for yourself what changes have taken place.

BALANCE SHEET					BALANCE SHEET			
June 1, 20—					June 30, 20—			
Assets	1,775	Liabilities	233	ACCOUNTING ↔ ACTIVITIES	Assets	1,848	Liabilities	198
		Owner's Equity	1,542					Owner's Equity
Total Assets	<u>1,775</u>	Total Liabilities & O.E.	<u>1,775</u>		Total Assets	<u>1,848</u>	Total Liabilities & O.E.	<u>1,848</u>
Financial picture of the business, June 1, 20— (A)					Financial picture of the business, June 30, 20— (B)			

Tom's Financial Pictures for June

You can see that the assets increased \$73.00; the liabilities decreased \$35.00; and owner's equity increased \$108.00 over the month of June. This means that Tom's Lawn Service *owns* (assets) \$73.00 more than it did in the beginning of June. He *owes* (liabilities) \$35.00 less than he did in the beginning of June, and the company (owner's equity) is worth \$108.00 more than it was at the first of the month.

In other words, Tom's business increased in value (gained more assets than liabilities) during the month of June. However, these reports don't tell you *what caused* the increase, what liabilities were paid off, or other

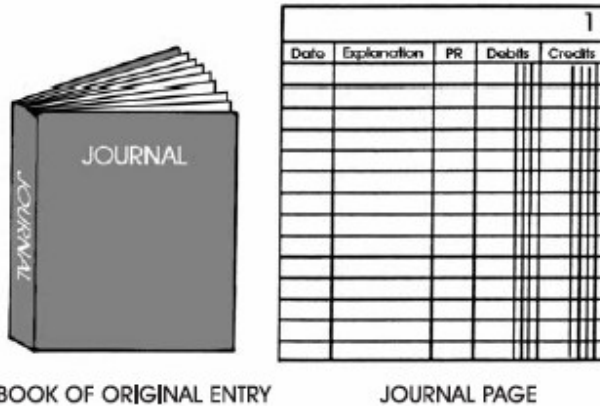
information necessary for effective business management.

Therefore, as important as the balance sheet is, it doesn't show the accounting activities that happened *during* the accounting period. We must know *what's going on* in the business, so we must have records that show the ongoing activity of the business. For this reason the business must keep a *set of books*; books that will show the individual transactions and how they affect the company. The most common books used in accounting are the *general journal* and the *general ledger*.

The first book where we record the activities of a business is called the *journal*. The journal is very much like a diary. It tells a story about the business. We record all business transactions in the journal in the same order they happened; that is, in *chronological order*. Also, we number every page in chronological order in the upper right-hand corner.

Journal—a book in which original transactions of the business are first recorded; it's sometimes called the *book of original entry*.

Each transaction recorded in the journal is called an entry. The journal is known as the book of original entry because we first write each piece of information in the journal and later transfer the information to another book (the ledger).



The Journal

The Original Entry

The information used to record the very first entry, or the *opening entry*, in the journal is the initial transaction made to start a business, like Tom’s investment in the business. Every entry in the journal must have a *source* (or beginning)—it must come from somewhere. Usually, it’s some kind of business paper called a *source document*. A source document is proof that the transaction did actually occur. For example, a source document for cash would be a check stub. Other examples of source documents are calculator tapes, receipts, and memorandums. Remember, you can journalize transactions only if they actually occur.

Journal Basics

The standard general journal page has two columns to write the dollar amounts in, a debit column and a credit column. For now, don’t associate the definition of debit or credit with the words *increase* or *decrease*. Think of debit and credit as indicating a position: left or right.

The left amount column of the general journal is the *debit side* and the right amount column is the *credit side*. Remember, the accounting

equation shows us that

1. The assets must equal the liabilities plus owner's equity.
In other words,
2. The left side of the equation must equal the right side of the equation.

$$\begin{array}{ccc} \text{Assets} & = & \text{Liabilities + Owner's Equity} \\ \text{(left side)} & & \text{(right side)} \end{array}$$

Left side must always equal *right* side.

Analyzing a Transaction

When you analyze a transaction to be journalized, use the following four questions to determine its debit and credit parts:

1. What accounts are affected by this transaction?
2. What's the classification (asset, liability, or owner's equity) of each account affected? Or is the account classified as a revenue or expense? (We'll present revenue and expense accounts in a later study unit.)
3. Did the account balance increase or decrease?
4. Will the amount be entered into the accounts as a debit or credit?

All journal entries should include

1. Date
2. Debit
3. Credit
4. Explanation of the transaction

- Source document (used as a cross reference from the journal to the source document and written in the Doc. No. column)

Below is a chart of the information we just discussed about analyzing a transaction. Refer to the chart as you analyze transactions. It will help you learn when to debit or credit an account.

Assets (Left Side)	=	Liabilities + Owner's Equity (Right Side)				
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-right: 1px solid black; padding: 5px;"> Debit Side Left Side Increase NORMAL BALANCE </td> <td style="width: 50%; padding: 5px;"> Credit Side Right Side Decrease </td> </tr> </table>	Debit Side Left Side Increase NORMAL BALANCE	Credit Side Right Side Decrease		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-right: 1px solid black; padding: 5px;"> Debit Side Left Side Decrease </td> <td style="width: 50%; padding: 5px;"> Credit Side Right Side Increase NORMAL BALANCE </td> </tr> </table>	Debit Side Left Side Decrease	Credit Side Right Side Increase NORMAL BALANCE
Debit Side Left Side Increase NORMAL BALANCE	Credit Side Right Side Decrease					
Debit Side Left Side Decrease	Credit Side Right Side Increase NORMAL BALANCE					
		<table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: center; border-bottom: 1px solid black;">Owner's Capital Account</td> </tr> <tr> <td style="width: 50%; border-right: 1px solid black; padding: 5px;"> Debit Side Left Side Decrease </td> <td style="width: 50%; padding: 5px;"> Credit Side Right Side NORMAL BALANCE </td> </tr> </table>	Owner's Capital Account		Debit Side Left Side Decrease	Credit Side Right Side NORMAL BALANCE
Owner's Capital Account						
Debit Side Left Side Decrease	Credit Side Right Side NORMAL BALANCE					

Use this chart for analyzing the debits and credits of transactions for assets, liabilities, and owner's equity accounts.

Journalizing Transactions

Now let's journalize some transactions. First we'll state the transaction, next we'll show the journal entry, and then we'll explain the transaction. When you write the transaction in the journal, write the debit entry flush to the left; indent the credit entry about a half inch from the left side. Then on the next line indented an inch from the left, write an explanation of the

transaction.

June 1, 20— Received \$1,542.00 cash from owner as an investment (receipt no. 1).

JOURNAL										Page	J1								
Date		Account Title	Doc. No.	Post. Ref.	Debit					Credit									
June	1	Cash	R1		1	5	4	2	00										
		Tom Green, Capital													1	5	4	2	00
		To record investment in business																	

Cash (asset) is increased by the investment. A debit entry is necessary to increase an asset. The capital account is increased also by this investment. A credit is necessary to increase a capital account.

June 1, 20— Borrowed \$150 cash from Mr. Green to cover business expenses (memorandum 1).

Continuation of Journal																			
	1	Cash	M1		1	5	0	00											
		A/P—Mr. Green													1	5	0	00	
		To record borrowed money from father																	

Cash (asset) is increased by borrowing money. A debit entry is necessary to increase an asset. Accounts Payable (liability) is increased by owing money that's borrowed. A credit entry is necessary to increase a liability.

June 1, 20— Paid cash for supplies, \$50.00 (check no. 1).

Continuation of Journal																
		1	Supplies	C1									5	0	00	
			Cash											5	0	00
			To record supplies purchased for cash													

Supplies (asset) is increased by purchasing more supplies. A debit entry is necessary to increase an asset. Cash (asset) is decreased by purchasing supplies. A credit entry is necessary to decrease an asset.

June 1, 20— Bought supplies on account from Kemper’s Lawn Shop, \$83.00 (memorandum 2).

Continuation of Journal																
		1	Supplies	M2									8	3	00	
			A/P—Kemper’s Lawn Shop											8	3	00
			To record supplies purchased on account													

Supplies (asset) is increased by purchasing more supplies. A debit entry is necessary to increase supplies. Accounts Payable (liability) is increased by purchasing supplies on credit. A credit entry is necessary to increase a liability.

June 1, 20— Paid cash for insurance \$600.00 (check no. 2).

Continuation of Journal																
		1	Prepaid Insurance	C2									6	0	00	
			Cash											6	0	00
			To record advance payment of insurance													

Prepaid Insurance (asset) is increased by purchasing insurance in advance. A debit entry is necessary to increase an asset. Cash (asset) is decreased by paying for insurance. A credit entry is necessary to decrease an asset.

June 1, 20— Paid cash for equipment \$175.00 (check no. 3).

Continuation of Journal															
		1	Equipment	C3								1	7	5	00
			Cash												1 7 5 00
			To record purchase of lawn equipment												

Equipment (asset) is increased. A debit entry is necessary to increase an asset. Cash (asset) is decreased by purchasing equipment. A credit entry is necessary to decrease an asset.

The Journal—in Balance

The opening transactions are shown in the journal sheet below. One entry may have more than one debit part, or more than one credit part. The balance sheet figures are calculated from these opening entries. You’ll see, however, that the total debit amounts for the transactions equal the total credit amounts for the transactions ($A = L + OE$).

No matter how many debit parts or credit parts there are in a transaction, the total debits must equal the total credits. Just as the balance sheet had to be in balance (the left side equals the right side), so the journal must be in balance. The left amount column must equal the right amount column, or in accounting vocabulary, the debit column must equal the credit

column. If the debits don't equal the credits, an error has been made and must be found and corrected.

The bookkeeper should check the accuracy of the journal often by checking the equality of the debits and the credits. The two-column general journal has two money columns, one for the debits and one for the credits, which makes it easy to check the accuracy of each transaction. Accuracy is very important in bookkeeping and accounting.

To show that the journal is in balance, you foot and line the columns. Draw a single straight line under the amount columns on the same line as the last explanation line. You write the total of each column in small pencil figures just under the line. The debit and credit totals must always be equal or the journal isn't in balance.

JOURNAL										PAGE J1		
DATE		ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT					CREDIT		
June	1	Cash	R1		1	54	200					
		Tom Green, Capital									1542	
		To record investment in business										
	1	Cash	M1			150	00					
		Accounts Payable—Mr. Green									150	
		To record money borrowed from father										
	1	Supplies	C1			50	00					
		Cash									50	
		To record supplies purchased for cash										
	1	Supplies	M2			83	00					
		Accounts Payable—Kemper's Lawn Shop									83	
		To record supplies purchased on account										
	1	Prepaid Insurance	C2			600	00					
		Cash									600	
		To record advance payment of insurance										
	1	Equipment	C3			175	00					
		Cash									175	
		To record purchase of lawn equipment										
					260000					2600		
					Debit					Credit		

The journal is in balance.

How to Use Your Account Analyzer

READING ASSIGNMENT

As a bookkeeper, you must know the proper account to debit and credit before making a transaction. You need to know which accounts have a debit balance and which ones have a credit balance. Also, you need to know whether a credit increases or decreases an account balance and whether a debit increases or decreases an account balance. When you're first learning bookkeeping, such information isn't always obvious. That's why you'll receive an Account Analyzer with your program. The Account Analyzer will

- Make your accounting studies easier with better results
- Help you learn the basics of accounting quickly and efficiently
- Provide, at a glance, instant factual accounting information
- Verify and assure the accuracy of all accounting work
- Help you overcome the initial obstacle of debits and credits
- Keep important accounting facts at your fingertips, instantly, permanently
- Ensure your success throughout your entire bookkeeping career

Knowing Your Account Analyzer

First, look at Side 1, which contains an alphabetical listing of account titles. This list is very comprehensive as it includes most all the accounts you'll need. The shaded account classifications and account titles are the ones the beginning student will need to know almost immediately, and the remaining accounts you'll use as you progress in your studies.

If you pull the blue tab (inside slide), you'll notice the arrow pointing to the accounts on the left edge. The last account on the left-hand edge is Contributions Expense. If you pull the inside slide further, the arrow points to the accounts listed on the right-hand edge.

You'll find the analysis of each account in the two windows below the account titles. The analysis answers the five questions appearing above the account titles.

1. What's the account classification?
2. What's the normal balance side (Bal) of the account?
3. Which is the increase side of the account (recorded on the balance

- side of the account)?
4. Which is the decrease side of the account (recorded on the side opposite the balance side of the account)?
 5. Is the account a balance sheet or income statement item?

Now look at Side 2. At the top is a quick summary of basic universal accounting principles, such as

- Debits = Credits
- Left = Right
- Assets = Liabilities + Owner's Equity
- Increase (+) on the balance side of any account
- Decrease (–) on the side opposite the balance side of any account

The bottom portion of Side 2 gives a quick-reference Chart of Accounts. The accounts appear under their proper balance sheet and income statement headings.

Purpose of the Account Analyzer

The Account Analyzer has two distinct functions.

1. It's a learning aid for the beginning bookkeeper.
2. It's a source of reference and review for those who have already mastered the fundamentals of accounting.

As a learning aid, try testing yourself on the concepts presented on the top half of Side 2 as follows.

1. Debits = Credits
2. Left = Right

3. $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$
4. Asset accounts have a debit balance.
5. Liability accounts have a credit balance.
6. Owner's equity accounts have a credit balance.
7. Revenue accounts have a credit balance.
8. Expense accounts have a debit balance.
9. Increase an account on its balance side.
10. Decrease an account on the side opposite the balance side.

For now, simply memorize these concepts. It's not important to learn the why right now. The reason why will become apparent as you progress in your study of bookkeeping.

When you've committed these concepts to memory, you're ready to analyze each account title.

Begin with the 16 basic accounts, those you'll need immediately in your study of accounting. Learn and test yourself on the 16 accounts, beginning with Accounts Payable, by moving the inside slide randomly over each account title, quickly answering the five questions we listed previously, starting with classification.

If you have any difficulty, check the correct answer in the analysis windows below the account titles. Again, it's not necessary to learn why in the beginning, but to merely memorize and be able to use the account analyzer effectively as a tool.

The remaining list of account titles will show up as you progress in your study of accounting. You should review them, too, later when you need

them. Don't attempt to learn the remaining accounts until you need them.

The Account Analyzer also functions as an information tool. With the Account Analyzer, you can instantly analyze any account using either the analyzer chart on Side 1 or the Chart of Accounts on Side 2. Printed on your Account Analyzer are the essential basic concepts of accounting fundamentals needed in everyday accounting. It will help you determine the principles of debit and credit when journalizing business transactions and posting them to the proper ledger accounts. You can also use it as an effective tool to help prepare financial statements.

The Accounting Cycle—What to Do

Let's try a few examples. With your Account Analyzer in hand, follow the transaction through the entire accounting cycle. Solve each step of the transaction instruction carefully, and then verify each step with your Account Analyzer.

1. Use the Account Analyzer to help analyze a business transaction.

Sample transaction: Sold equipment for cash

- a. Determine the accounts affected. Pull the blue tab, inside slide, to the proper account titles (Account Title window).

The accounts affected are Cash and Equipment.

- b. Determine the account classification for each account affected (Window A).

The account classifications are

- Cash—Asset
- Equipment—Asset

- c. Determine how the balance of each account changes—increase or

decrease. Debits must equal credits (Window B).

- (More) Cash = Increase balance
- (Less) Equipment = Decrease balance

2. Use the Account Analyzer to help journalize and to post to the ledger accounts.

Determine the debit part and the credit part of each journal entry. You record increases on the balance side of any account. You record decreases on the side opposite the balance side of any account (Window B).

Transfer the entry from the journal to the ledger accounts.

3. Use the Account Analyzer to help prepare financial statements.
 - d. Determine the account classification for each account title (Window A or reverse).
 - e. Determine the balance side of each account (Window B or reverse).
 - f. Determine where on the financial statements each account appears (Window B or reverse).

Key Points and Links

READING ASSIGNMENT

Key Points

- The most common books used in an account are the general journal and the general ledger, which show the ongoing activity of the business.
- The journal is the book of original entry, and all business transactions are recorded in the general journal in chronological order; each transaction recorded is an entry.

- Every entry in the journal must have a source, usually a source document such as a check stub, calculator tapes, receipts, and memorandums.
- A journal page has two columns, the left is the debit side and the right side is the credit side. All journal entries should include the date, debit/credit, explanation of the transaction, and reference to the source document.
- To determine a transaction's debit and credit parts, analyze which accounts are affected, the classification of each account affected, the effect of the transaction (balance increase or decrease), and if the amount will be entered as a debit or credit.
- A single entry may have more than one debit part or more than one credit part; however, the total debit amounts for the transactions equal the total credit amounts for the transactions.
- A bookkeeper should check the accuracy of a journal frequently by checking the equality of the debits and credits. If they are not equal, an error has been made and must be found and corrected.

Discover More: The Journal

Complete Accounting Practice 4 in [Workbook 1](#) (lessons.pennfoster.com/pdf/sp0379.pdf) . Then, check your answers at the end of the workbook.

Discover More Answer Key:

Discover More: The Journal

Check your answers with those at the end of [Workbook 1](#)

(lessons.pennfoster.com/pdf/sp0379.pdf) .

Discover More: Using Your Account Analyzer

Using your Account Analyzer, analyze the following transactions:

1. Purchased equipment for cash.
2. Returned supplies (on hand), received cash refund.
3. Received cash from daily sales.

Discover More Answer Key:

Discover More: Using Your Account Analyzer

1. Equipment: Asset, increase, debit, balance sheet Cash: Asset, decrease, credit, balance sheet
2. Cash: Asset, increase, debit, balance sheet Supplies (on hand): Asset, decrease, credit, balance sheet
3. Cash: Asset, increase, debit, balance sheet Sales: Revenue, increase, credit, income statement

1.2 Explain the order and classification of ledger entries

The Ledger

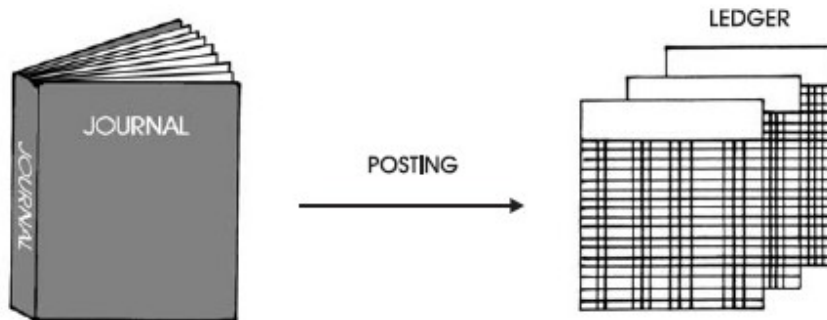
READING ASSIGNMENT

Ledger Basics

You learned that the journal is the *book of original entry*. You also learned that you must first record every business transaction that affects assets,

liabilities, or equity accounts in the journal.

Now let's learn about another book called the *ledger*. In accounting, you must record each transaction at least twice, once in the journal and a second time in the ledger.



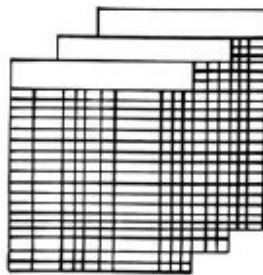
Posting from the Journal to the Ledger

More specifically, we record each business transaction twice, once by the date (or chronologically) and once by individual account and classification. We arrange books of original entry, such as the journal, by date. We enter each transaction into the journal in the order it happens. This method of recording business transactions provides an excellent reference for someone who needs information about a certain transaction that happened on a certain date. However, recording by date is an extremely awkward system if you need information about one account that has many transactions throughout the month. Therefore, another book of entry that's arranged by account number and account title is necessary for a good accounting system.

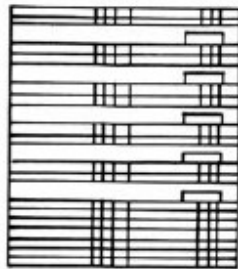
Consequently, we have the *general ledger* for this specific purpose. It's arranged in numerical order according to the account numbers in the chart of accounts, which you'll learn about later in this section. This

numerical sequence also groups the accounts according to classification, since the chart of accounts is already divided into assets, liabilities, and owner's equity accounts. Also, the individual account sheet shows all of the activities that have happened to each account during the month. In addition, the general ledger provides the information needed for the financial statements at the end of the month.

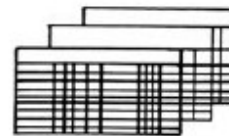
The ledger may take many different forms, depending upon what information each company wants from its ledger. It may be a loose-leaf notebook with removable pages, a tray of file cards, or a bound book with a group of standard ledger account pages. The form of the ledger isn't nearly as important as the information it supplies.



LEDGER



LEDGER FILE

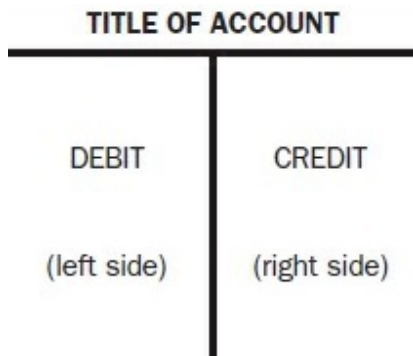


LEDGER (CARDS)

Sample Ledgers

The T Account

Each asset account, each liability account, and each owner's equity account must have its own place in the general ledger and its *own separate ledger page*. In its simplest form, each of these accounts looks like the letter *T* as shown in the figure.



T Account

You'll use the T account idea often in accounting: in the standard ledger account, the journal, as well as the balance sheet. Each of these accounting tools has a left or debit side and a right or credit side.

An entry posted to the left (or debit) side of an account is a *debit entry*. An entry posted to the right (or credit) side of an account is a *credit entry*.

Again, don't associate the definition of debit or credit with the words *increase* or *decrease*. Think of debit or credit as indicating a position: the left or right side of a T account.

The standard ledger account resembles a T. Look back through the previous unit (*The Accounting Equation*) and see if you can discover where you should draw the T lines on the different forms we've already used.



Account Title		Account title										Account No. _____												
DEBIT	P.R.											CREDIT	P.R.											

Standard Ledger Account

The Chart of Accounts

The first page of any ledger contains the *chart of accounts*. This chart (or list) shows the name of the account (the account *title*) and its account number. Every account has an account *number*. The account number shows you where to find the account in the ledger, and makes it easier to find an individual account quickly. You can use any numbering system, and most companies use a numbering system that best suits their needs. All companies generate a chart of accounts specific to their company’s needs. Most businesses will have *divisions* in their ledger; an asset division, a liability division, and an owner’s equity division. (Doesn’t that sound familiar?)

Chart of accounts—a list of account titles in the order in which they can be found in the ledger.

A company can add an account in the particular division when one doesn't already exist. The chart of accounts is expandable.

The ledger we'll use in the chart of accounts also has three categories, just like the balance sheet and the general journal.

Look carefully at Tom's Lawn Service's chart of accounts shown here and see the arrangement of the accounts.

Division 1	Asset Accounts	11-19
Division 2	Liability Accounts	21-29
Division 3	Owner's Equity Accounts	31-39

(1) ASSETS

- 11 Cash
- 12 Supplies
- 13 Prepaid Insurance
- 14 Equipment

(2) LIABILITIES

- 21 A/P—Mr. Green
- 22 A/P—Kemper's Lawn Shop

(3) OWNER'S EQUITY

- 31 Tom Green, Capital

Chart of Accounts for Tom's Lawn Service

Tom uses the digit 1 to identify the asset division. He uses a second digit, with the 1, to form numbers that then identify specific asset accounts.

Note Tom's four asset accounts. They'll begin with the digit 1, and each has a different identifying second digit. As his business grows, Tom can add more asset accounts as they're needed (15 through 19). The liability

division is the second division in the ledger. Each liability account begins with the digit 2, and the owner's equity division starts with 3, since it's the third division or group.

The second digit in the account numbers stands for the position or place of the account in its own division. For example, the Cash account is number 11. This tells you that this account is in the first division (1 1) (or the asset section), and that it's the first account (1 1) in that division. Account number 18, therefore, would also be in the first division (assets) (1 8), but it would be the eighth account in that division (1 8).

Tom gives Kemper's Lawn Shop, a creditor (to whom Tom owes money), the account number 22, which shows you that it's in the second division (liabilities) (2 2) and is the second (2 2) account in that division.

Key Points and Links

READING ASSIGNMENT

Key Points

- In accounting, every transaction must be recorded at least twice, once in the journal and again in the ledger. The journal is recorded chronologically, while the ledger is recorded by individual account and classification.
- The general ledger is arranged in numerical order according to the account numbers in the chart of accounts, and groups the accounts according to classification.
- Each asset account, each liability account, and each owner's equity account must have its own place in the general ledger and its own separate ledger page; these are known as T accounts.

- Each account has a left (debit) side with debit entries and a right (credit) side with credit entries.
- The first page of a ledger contains the chart of accounts, which shows the name of each account and its account number, which shows where the account can be found in the ledger. This chart is expandable.
- Many ledgers will have divisions for assets, liabilities, and owner's equity. An account number then shows the position of the account in its division.

Discover More: The Ledger

Complete Accounting Practice 5 in [Workbook 1](https://www.lessons.pennfoster.com/pdf/sp0379.pdf) (lessons.pennfoster.com/pdf/sp0379.pdf) . Then, check your answers at the end of the workbook.

Discover More Answer Key:

Discover More: The Ledger

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1.3 Identify how to add accounts and post transactions in a ledger

How to Open a Ledger Account

READING ASSIGNMENT

To *open* a ledger account, you must write the account title and its number on a ledger page. Each account must have its own *separate ledger page*. As the business grows, it will need new accounts and account numbers. You first list each new account on the chart of accounts in its proper section and in the proper order. You then immediately open a ledger page for the new account, before you can post any information from the journal. For example, Tom Green opens his Cash account on the first page of his ledger using the following steps.

- a. Write the account title “Cash” on the first line of the ledger on the left side of the page.
- b. Write the account number “11” on the first line of the ledger on the right side of the page as shown in the figure.

You open each account in the same way, no matter what division it’s in.

Opening a ledger account—preparing a page in the ledger for use.

Account Title: Cash				Account No. 11			

An Opened Ledger Account

Posting Journal Entries

We said that posting from the journal to the ledger is the act of *transferring* the entries from the journal to its ledger account. Now let's learn exactly how to *post*.

Refer to the figures below to learn the posting procedure.

Step 1

In the first transaction, transfer the amount of the Cash debit, \$1,542, from the journal to the debit amount column of the *Cash* account in the ledger. The amount of the entry is always the first item you'll post because it's the most important part of the entry. You should always carefully check this figure for accuracy.

Step 2

Transfer the date, June 1, 20—, to the date column in the Ledger account. For this transaction, we use June 1, 20—. In an existing business, a balance sheet is prepared on the last day of a fiscal period, which we'll discuss in a later study unit. Even if a balance sheet were prepared at an earlier date, the *opening entry* would be recorded as of the first day of the new period.

Also, just as in the journal, we write the month and year part of the date only once, at the top of the page, unless they change during the accounting period.

Step 3

If necessary, enter an explanation. In our case, we write Balance in the explanation column. Here, the word Balance shows the difference

between the beginning balance of the account and the later business transactions that you'll post during the month. Balance is written in for the first posting only.

Step 4

Transfer the journal page number (page 1) to the *posting reference* (P.R.) column in the ledger. The P.R. will be a *J* (for general journal) and a *1* for the page number in the journal from which the entry came. In this way, anyone looking at the Cash account in the ledger knows that the information for this ledger entry came from the general journal, page 1.

Step 5

Transfer the correct account number (11, the number that shows the entry's location in the ledger) to the posting reference (P.R.) column *in the journal*. Doing so shows the part of the journal entry that was posted to that page in the ledger.

JOURNAL												Page -- 41			
Date	20—	Account Title	Doc. No.	P.R.	Debit				Credit						
June	1	Cash	R1	11	1	5	4	2	00						
		Tom Green, Capital		31						1	5	4	2	00	
		To record investment in business													
	1	Cash	M1	11		1	5	0	00						
		A/P—Mr. Green		21						1	5	0	00		
		To record money borrowed from father													
	1	Supplies	C1	12			5	0	00						
		Cash		11								5	0	00	
		To record supplies purchased for cash													
	1	Supplies	M2	12			8	3	00						
		A/P—Kemper's Lawn Shop		22								8	3	00	
		To record supplies purchased on account													
	1	Prepaid Insurance	C2	13		6	0	0	00						
		Cash		11								6	0	00	
		To record advance payment of insurance													
	1	Equipment	C3	14		1	7	5	00						
		Cash		11								1	7	5	00
		To record purchase of lawn equipment													
						2	6	0	0	00		2	6	0	00

Account <i>Cash</i>				Account No. <i>11</i>												
Date	20—	Item	P.R.	Debit				Date	20—	Item	P.R.	Credit				
<i>20—</i>	<i>June</i>	<i>1 Balance</i>	<i>91</i>	<i>1</i>	<i>5</i>	<i>4</i>	<i>2</i>	<i>00</i>								

Movement of Information from the Journal to the Ledger

The next figures show the postings for the journal transactions all completed.

You continue to post the credit entry the same way as you post a debit entry. However, you post the information for each credit entry to the right, or credit, side of the ledger account. Each transaction is posted following the five steps. Always post the debit first, then the credit. Don't forget to place the ledger account number back in the post reference column of the general journal.

Account <i>Cash</i>				Account No. <i>11</i>			
Date	Item	P.R.	Debit	Date	Item	P.R.	Credit
20— June	1 Balance	91	1 5 4 2 00	20— June	1	91	5 0 00
	1	91	1 5 0 00		1	91	6 0 0 00
					1	91	1 7 5 00

Account <i>Supplies</i>				Account No. <i>12</i>			
Date	Item	P.R.	Debit	Date	Item	P.R.	Credit
20— June	1 Balance	91	5 0 00				
	1	91	8 3 00				

Account <i>Prepaid Insurance</i>				Account No. <i>13</i>			
Date	Item	P.R.	Debit	Date	Item	P.R.	Credit
20— June	1 Balance	91	6 0 0 00				

Account <i>Equipment</i>				Account No. <i>14</i>			
Date	Item	P.R.	Debit	Date	Item	P.R.	Credit
20— June	1 Balance	91	1 7 5 00				

The Ledger

Account <i>A/P—Mr. Green</i>					Account No. <i>21</i>								
Date	Item	P.R.	Debit			Date	Item	P.R.	Credit				
						20- June 1	Balance	91		1	5	0	00

Account <i>A/P—Kemper's Lawn Shop</i>					Account No. <i>22</i>								
Date	Item	P.R.	Debit			Date	Item	P.R.	Credit				
						20- June 1	Balance	91			5	3	00

Account <i>Tom Green, Capital</i>					Account No. <i>31</i>								
Date	Item	P.R.	Debit			Date	Item	P.R.	Credit				
						20- June 1	Balance	91		1	5	4	2 00

The Ledger (continued)

Summary

Now you know how to enter items into the journal, how to set up a chart of accounts, and how to post items into the ledger from the journal. These are all basic activities in bookkeeping/accounting.

Key Points and Links

READING ASSIGNMENT

Key Points

- To open a ledger account, write the account title and its number on a

- ledger page; each account must have its own separate ledger page.
- Posting from the journal to the ledger is known as transferring the entries from the journal to its ledger account.
 - To post a transaction, transfer the amount from the journal's debit column to the debit amount column of the appropriate account in the ledger, then transfer the date and any explanation that's needed.
 - Transfer the journal page number to the posting reference column of the ledger, indicating J for journal, followed by the journal page number (that is, J1).
 - Then transfer the correct account number from the ledger to the posting reference column in the journal. This creates a cross-reference for transactions.
 - Always post the debit first and then the credit.

Discover More: Posting from General Journal to Ledger Account

Complete Accounting Practice 6 in [Workbook 1](#) (lessons.pennfoster.com/pdf/sp0379.pdf) . Then, check your answers at the end of the workbook.

Discover More Answer Key:

Discover More: Posting from General Journal to Ledger Account

Check your answers with those at the end of [Workbook 1](#) (lessons.pennfoster.com/pdf/sp0379.pdf) .

Lesson 1 Review

Self-Check

1. Prana is starting a business selling hand-knit sweaters. She already has several stores interested in ordering. She has bought a journal to keep track of her financial data and to get ahead of the game, has entered the potential orders she discussed with the store owners. What key mistake is she at risk of making?
 - a. The transactions haven't taken place yet.
 - b. She doesn't yet know the dates.
 - c. There may be discounts.
 - d. The orders may be cancelled.
2. The best way to think about debiting and crediting is
 - a. increase and decrease.
 - b. left and right.
 - c. plus and minus.
 - d. income and expense.
3. Vero is creating her first entry in the accounting journal for her website creation business. She adds the date, the debit or credit, and the explanation of the transaction, everything she thinks she needs in order to have a full picture of the transaction. However, which key data point is she missing?
 - a. The company name
 - b. Her name as the enterer of the data
 - c. Whether it was an asset or a liability
 - d. A source document

4. Prana has just ordered a large variety of colors of yarn for her sweater business, and the bill should come in 30 days or so, when she'll have to pay it. Which is an element of how she should enter the transaction in her journal?

- a. She should credit Accounts Payable.
- b. She should debit Accounts Payable
- c. She should debit Short-term Debt
- d. She shouldn't enter anything yet because she hasn't received the product yet.

5. Prana has just purchased several different-sized needles for her sweater business from a local retailer. Which is an element of how she should enter the transaction in her journal?

- a. She should debit Cash.
- b. She should credit Equipment.
- c. She should debit Supplies.
- d. She should debit Equipment.

6. Once Prana has her supplies and workspace in order for her sweater business, she realizes that she should have insurance. So she purchases some from an online broker with her credit card. How should she reflect this in her journal?

- a. She should Credit Insurance.
- b. She should debit Prepaid Insurance and credit Accounts Payable
- c. She should debit Cash.
- d. She shouldn't enter anything yet because she hasn't paid her credit card bill yet.

7. When Prana was entering transaction in her journal she credited an asset account and debited a liability account. What will be the result of

this action?

- a. The company will appear to have less cash.
- b. The company will appear to have additional cash.
- c. The accounts will stay in balance.
- d. It will be double-counted.

8. When Prana was entering transactions in her journal she debited the same amount in an asset account as she credited in a liability account.

What will be the result of this action?

- a. The total of liabilities will go up.
- b. Owners' Equity will not change.
- c. Owners' Equity will increase.
- d. Owners' Equity will decrease.

9. What is the key difference between the journal and the ledger?

- a. The ledger will be more accurate than the journal.
- b. One is recorded by date and the other by account.
- c. The ledger contains more detail than the journal.
- d. The journal is used for monthly financial statements.

10. In the Cash T-account, what goes on the right side?

- a. Debits
- b. Increases
- c. Credits
- d. Decreases

11. What does the chart of accounts show?

- a. Assets, Liabilities, and Owners' Equity
- b. Account names and numbers
- c. Credits and debits
- d. Profits and losses

12. What is the source of all information in the general ledger?

- a. The journal
- b. Bank statements
- c. Sales spreadsheets and data
- d. Receipts

13. Prana, after transferring her data from the journal to create a general ledger, notices that the debits are larger than the credits in her cash account and so the two don't balance. What is likely to have happened?

- a. She forgot to add a transaction when she received cash for a sale.
- b. She forgot to add a transaction where she spent cash for a purchase.
- c. She likely made a mistake in the transfer of information from the journal.
- d. It's ok if they don't balance; nothing happened.

14. What is the proper procedure for opening a ledger account?

- a. Put assets together, then liabilities together, and finally owners' equity.
- b. Put all the credits on one account page and the debits on a separate page.
- c. Write the account number and the title on a separate page.
- d. Import account categories from the journal and put them at the top of columns.

15. Which is *true* of the opening entry in a ledger?

- a. It's recorded as the same day the balance sheet was prepared.
- b. It's recorded as the last day of the period.
- c. It's recorded as the date of the first transaction of the period.
- d. It's recorded as the first day of the new period.

Self-Check Answer Key

1. The transactions haven't taken place yet.

Explanation: The mistake she's making is that no entry should be put in a journal until the actual transaction has taken place. A journal is meant to record actual events, not as a place to plan.

Reference: Section 1.1

2. left and right.

Explanation: Because the terminology can get confusing when dealing with different kinds of accounts, it's best to think about credits and debits as indicating a position: left or right.

Reference: Section 1.1

3. A source document

Explanation: It is vital that every journal entry have a source document that shows that the journal entry represents an event that really happened. Not only is this good record-keeping, it is vital at tax audit time.

Reference: Section 1.1

4. She should credit Accounts Payable.

Explanation: To increase the value of a liability, she should use a credit. The liability account would be Accounts Payable.

Reference: Section 1.1

5. She should debit Supplies.

Explanation: To increase the value of an asset, she should use a

debit. And the asset account would be Supplies.

Reference: Section 1.1

6. She should debit Prepaid Insurance and credit Accounts Payable

Explanation: Assets should be debited to increase them, and liabilities should be credited to increase them. The correct asset account is Prepaid Insurance and the correct liability account is Accounts Payable.

Reference: Section 1.1

7. The accounts will stay in balance.

Explanation: Prana did the right thing. Entering a credit, or decrease, on an asset account, such as paying a bill from the cash account, will be balanced by a corresponding debit on a liability account, such as Accounts Payable, and the accounts will stay in balance.

Reference: Section 1.1

8. Owners' Equity will not change.

Explanation: Since both Assets and Liabilities increased by the same amount, Owners' Equity will not change.

Reference: Section 1.1

9. One is recorded by date and the other by account.

Explanation: The journal records transactions by date, while the ledger groups transactions by account.

Reference: Section 1.2

10. Credits

Explanation: In the T-account, the left side is for debits and the right side is for credits.

Reference: Section 1.2

11. Account names and numbers

Explanation: The chart of account doesn't contain any financial information. Instead it's merely a list of the accounts and their numbers.

Reference: Section 1.2

12. The journal

Explanation: The information in the journal is transferred to the general ledger and is there organized by account instead of by date.

Reference: Section 1.2

13. It's ok if they don't balance; nothing happened.

Explanation: It's perfectly normal, indeed likely, that the credits and debits in a particular account wouldn't balance. For example, the business might take in \$2,000 but spend \$3,000 in a given month.

What's important is that the assets and liabilities plus owners' equity as a whole balance.

Reference: Section 1.3

14. Write the account number and the title on a separate page.

Explanation: Each account gets its own page, and on it you write the account title and account number.

Reference: Section 1.3

15. It's recorded as the first day of the new period.

Explanation: Even if a balance sheet were prepared at an earlier date, the opening entry would be recorded as of the first day of the new period.

Reference: Section 1.3

Flash Cards

1. Term: Asset

Definition: Something of value owned by a business

2. Term: Liability

Definition: Something of value owed by a business

3. Term: Owners's Equity

Definition: The value remaining after liabilities have been subtracted from assets

4. Term: Balance Sheet

Definition: A snapshot of an organization's financial situation at a particular point in time

5. Term: Journal

Definition: A book in which original transactions of the business are first recorded; sometimes called the book of original entry

6. Term: Original Entry

Definition: The transaction which is the first when starting a business

7. Term: Debit

Definition: An entry recording an amount, listed on the left-hand side or column of an account

8. Term: Credit

Definition: An entry recording an amount, listed on the right-hand side or column of an account

9. Term: Accounting Equation

Definition: Assets equals Liabilities plus Owners' Equity

10. Term: Balance Side, Account (Bal)

Definition: The difference between the total debits and total credits in an account; all accounts have a "normal" balance

11. Term: Contra Account

Definition: An account that shows the estimated decrease in value of the account to which it relates; also referred to as a "minus" or "valuation" account

12. Term: Permanent Account

Definition: Balance sheet accounts that retain an account balance from one accounting period to the next

13. Term: Temporary Account

Definition: Income statement accounts that are intended to accumulate data for one accounting period only; their account balances are periodically transferred to the Owner's Equity account

14. Term: General Ledger

Definition: A company's set of numbered accounts for its accounting records; the ledger provides a complete record of financial transactions over the life of the company

15. Term: T-Account

Definition: A tool that's used to help understand individual ledger accounts and the effects of each transaction; a T-account is a way to organize and summarize transactions in an individual ledger

16. Term: Chart of Accounts

Definition: A listing of the names of the accounts that a company has identified and made available for recording transactions in its general ledger

17. Term: Division

Definition: A method of categorizing accounts for easier reference

18. Term: Posting Reference

Definition: A field that facilitates cross-referencing or interlinking between the journal and the ledger in the posting process

19. Term: Prepaid Insurance

Definition: An asset account that keeps track of insurance values paid for but not yet received