

Segment: Accounting Process

Topic: General Journal

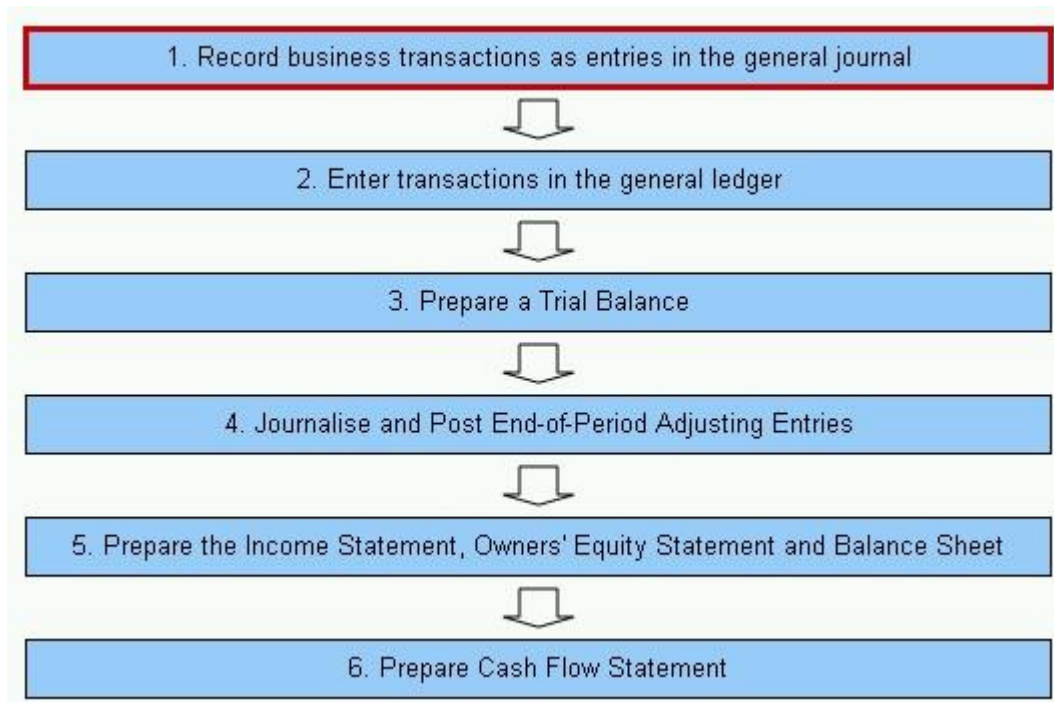
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## Introduction

Recall that after business transactions have been analysed, the first step in the accounting process is to record accounting entries in the general journal.



## Learning Objectives

At the end of this topic, you will be able to:

- state the purpose of the general journal
- record business transactions in the general journal.

## 1. Step 1: Record Business Transactions in the General Journal

Transactions are recorded as they occur using the double-entry accounting system. The format of the general journal may be illustrated as follows. In each journal page, there are separate columns for:

- Date
- Reference
- Accounts and Description
- Debit
- Credit

Date	Reference	Accounts and Description	Debit	Credit

**Fig.1: Columns in the General Journal**

### Columns in the General Journal

#### Date

In this column, the date of each transaction is recorded. Transactions are recorded in chronological order.

**Reference**

This column contains an appropriate reference number that refers to the page number of the account in the general ledger. It may also be used to enter the number of the invoice, receipt or any other supporting document.

**Accounts and description**

The debit and credit accounts, based on the double-entry system, are entered into this column along with a description of each transaction. The account to be debited is entered first and the account to be credited is entered on the next line, slightly indented to differentiate debits from credits.

**Debit**

This column contains the amount for the debited account(s).

**Credit**

The amount for the credited account (s) is entered into this column.

It is important to remember that when using the double-entry system, the total of all debits will equal the total of all credits at any point of time. This provides some assurance that the amounts of the transactions taking place during a particular period are entered correctly. However, this equality does not provide full assurance that the transactions are entered correctly. For example, equivalent incorrect entries for debits and credits will still produce equivalent totals for all debits and credits. Furthermore, the equivalency of debits and credits does not mean that the debits or the credits are made out to the correct accounts.

The graphic below shows the transactions that have been entered into the general journal for XYZ Computers.

Date	Reference	Accounts and Description	Debit	Credit
1 January 2019	---	Cash Contributed Capital Investment of cash by the owners	\$100,000.00	\$100,000.00
5 January 2019	---	Office Supplies Cash Purchase of office supplies from ABC Ltd.	\$5,000.00	\$5,000.00
7 January 2019	---	Cash Service Revenues Rendering computer services to AAA Construction Company in cash	\$10,000.00	\$10,000.00
15 January 2019	---	Salaries and Wages Expenses Cash Payment of wages in cash	\$7,000.00	\$7,000.00
20 January 2019	---	Cash Accounts Receivable Service Revenues Rendering computer services to AAA Construction Company. The balance of \$7,000 will be paid on February 15 <sup>th</sup> 2019	\$3,000.00 \$7,000.00	\$10,000.00
30 January 2019	---	Cash Loan Payable Loan from the National Bank at 6%. The principal and interest will be paid on March 31 <sup>st</sup> 2019	\$30,000.00	\$30,000.00
		<b>Total</b>	<b>\$162,000.00</b>	<b>\$162,000.00</b>

**Fig.2: Transactions Entered into the General Journal for XYZ Computers**

## 2. Chart of Accounts

How do accountants choose the titles of the accounts? Do companies keep one account for wages expense and another for salaries expense or do they combine them? Do companies keep one account for cash in hand and another one for cash in the bank or do they combine them? Do companies keep one account for each type of property (e.g., cars, equipment) or do they combine them into one account called properties and equipment?

Typically, companies create a chart of accounts at the commencement of the business. The chart of accounts tends to be flexible enough to allow for the addition of other accounts, should circumstances warrant this. Furthermore, the number and type of account to be maintained depends upon the size and complexity of the business. Larger businesses that have many types of transactions will have a more complex chart of accounts than that of smaller businesses that have fewer transactions.

For the purpose of illustration, a separate account for each client will not be shown, even though companies usually keep track of those accounts in separate records. For our purpose, we will, for example, group all clients into one general account entitled Accounts Receivable.

## General Journal

This procedure will be applied to many other types of accounts such as Accounts Payable, Equipment, Cash and so on.

### 3. Summary

Here is a quick recap of what we have learnt so far:

- The first step in the accounting process is to analyse transactions and enter them into the general journal.
- The general journal is a book where transactions are recorded or entered using the double-entry system.
- Transactions are listed in the general journal in chronological order.
- The equivalency of the total of debits and credits recorded in the general journal provides some, but not full, assurance that transactions are entered correctly.