

Lesson 3-1 Journals, Source Documents, and Recording Entries in a Journal

Journal and Journalizing

- Transactions are analyzed into debit and credit parts before information is recorded
- The form for recording transactions in chronological order is called journal
- Recording transactions in a journal is called journalizing
- Companies create a permanent record by recording transactions in a journal
- Businesses use the kind of journal that best fits the needs of that business
- The nature of the business and number of transactions determines the best kind of journal to use
- Most business conduct transactions every day
- Businesses usually record transactions in their journals every day

A Five-Column Journal

- TechKnow Consulting uses a multicolumn journal with 5 amount columns
 - General Debit, General Credit, Sales Credit, Cash Debit, Cash Credit
- A journal amount column headed with an accounting title is called a **special amount column**
 - These are used for transactions that occur frequently
- Using SAC eliminates writing an account title in the Account Title column and saves time
- A journal amount column that is not headed with an account title is called a **general amount column**
 - These are used for transactions that occur less frequently – General Debit and General Credit
- Accuracy – information recorded in a journal includes the debit and credit parts of the transactions recorded in one place
- **Chronological record** – transactions are recorded in the journal in order by date
- **Double-Entry Accounting** – information for each transaction recorded in a journal is called an entry; the recording of debit and credit parts of a transaction is called double-entry accounting – each transaction affects at least 2 accounts
- **Source Documents** – a business paper from which information is obtained for a journal entry is called a source document; each transaction is described by a source document that proves that the transaction did occur
- **Accounting Concept: Objective Evidence – when a source document is prepared for each transaction**
- A transaction should only be journalized if it actually occurred
- Amounts recorded must be accurate and true
- TechKnow Consulting uses five source documents: Checks, Sales Invoices, Receipts, Calculator Tapes, and Memorandums

Check – a business form ordering a bank to pay cash from a bank account

- The source document for all cash payments are checks
- The checks are prenumbered
- TechKnow's record of information on a check is the check stub prepared at the same time as the check

Invoice – when services are sold on account, the seller prepares a form showing information about the sale

- A form describing the goods or services sold, the quantity, and the price is called an invoice
- An invoice used as a source document for recording a sale on account is called a sales invoice (sales ticket or sales slip)
- Prepared in duplicate (original goes to customer, copy is used as a source document for the sale on account transaction)
- **Accounting Concept: Objective Evidence (sales invoices are prenumbered in sequence to help account for all sales invoices)**

Receipts – A business form giving written acknowledgement for cash received

- When cash is received from sources other than sales, TechKnow prepares a receipt
- Receipts are prenumbered to help account for all receipts
- A receipt is the source document for cash rec'd from transactions other than sales

Memorandums – a form on which a brief message is written describing a transaction

- Used when no other source document is prepared for transaction or when an additional explanation is needed
- Memorandums are prenumbered

Calculator Tapes

- TechKnow collects cash at the time services are rendered to customers
- At the end of the day, TechKnow uses a printing electronic calculator to total the amount of cash received from sales for that day
- By totaling all the individual sales, a single source document is produced for the total sales of the day
- Time and space are saved by recording only one entry for all of the day's sales
- The calculator tape is the source documents for daily sales
- TechKnow dates and numbers each tape i.e. T31 (tape for the 31st)

FYI – dollars and cent signs and decimal points are not used when writing amounts on ruled accounting paper. Sometimes a color tint or a heavy vertical rule is used on printed accounting paper to separate the dollars and cents columns.

3-2 Journalizing Buying Insurance, Buying on Account, and Paying on Account

3-3 Journalizing Transactions That Affect Owner's Equity and Receiving Cash on Account

3-4 Proving and Ruling a Journal

Proving a Journal Page – After TechKnow uses all but the last line of a journal page, columns are totaled, proved, and ruled before totals are carried forward to the next page

To prove a journal – verify that debits equal credit on the page

3-Step Process

1. Add each of the amount columns

2. Add the debit column totals, and then add the credit column totals
3. Verify that the total debits and total credits are equal. If the total debits = total credits then page one of the journal is proved
 - a. If the total debits do not equal the total credits, the errors must be found and corrected before any more work is completed
 - b. See the handout called "Finding Errors on a Journal" for suggestions on how to find errors

Ruling a Journal Page – After a journal page is proved, it is ruled – use a ruler or other straight edge

5-Step Process of Ruling a Journal Page

1. Rule a single line across all amount columns directly below the last entry to indicate that columns are to be totaled
2. On the next line, write the date in the date column (use the date of the last entry if not the end of the month, use the last day of the month if you are ruling for journal for the month)
3. Write Carried Forward in the Account Title Column. Place a check mark in the Post. Ref column. The use of the Post Ref. column will be in Chapter 4
4. Write each column total below the single line
5. Rule double lines below the column totals across all amount columns. A double rule in a journal indicates that the amounts are totals and that the sum of the debit totals equal the sum of the credit totals

Starting a New Journal Page

- The column totals from the previous page are carried forward to a new page
- The totals are recorded on the first line of the new page

4-Step Process of Starting a New Journal Page

1. Write the page number, 2, at the top of the journal page
2. Write the date in the date column (use the same date that was used on the bottom of page 1). Because this is the first time that a date is written on page 2, the year, month, and day are all written in the date column
3. Write Brought Forward in the Account Title Column. A check mark is also placed in the Post. Ref. Column
4. Record the column totals brought forward from the previous page

Proving and Ruling a Journal Page at the End of a Month

- TechKnow always proves and rules a journal at the end of each month – even if the last page for the month is not full
- The last page of a journal for a month is proved using the same steps previously described
- Then Cash is proved and the journal is ruled

Proving Cash – Determining that the amount of cash agrees with the accounting records

- Cash can be proved at any time the company wants to verify the accuracy of the cash records
- TechKnow always proves cash at the end of the month when the journal is proved

Steps to Prove Cash

1. Calculate the cash balance
 - a. Cash on hand at the beginning of the month
 - b. Plus total cash received during the month

- c. Equals total
 - d. Less total cash paid during the month
 - e. Equals cash balance at the end of the month
2. Verify that the cash balance equals the checkbook balance on the next unused check stub in the checkbook. If the number in the checkbook and the number from step 1 are the same – cash is proved

Ruling a Journal at the End of the Month

1. Rule a single line across all amount columns directly below the last entry to indicate that the columns are to be added
2. On the next line, write the date (last day of the month) in the date column
3. Write the word **Totals** in the Account Title Column
 - a. A check mark is not placed in the Post. Ref. column for this line
4. Write each column total below the single line
5. Rule double lines below the column totals across all amount columns. The double lines mean that the amounts are totals and that the debit totals equal the credit totals

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*****VERY IMPORTANT*****