Chapter 6

Recording Transactions in a General Journal

What You’ll Learn

1. Explain the first three steps in the accounting cycle.
2. Give and describe several examples of source documents.
3. Explain the purpose of journalizing.
4. Apply information from source documents.
5. Describe the steps to make a general journal entry.
6. Make general journal entries.
7. Correct errors in general journal entries.
8. Define the accounting terms introduced in this chapter.

Why It’s Important

Every transaction you have with a business is documented in some way. Companies keep permanent records of transactions.

Before You Read

Predict

1. What does the chapter title tell you?
2. What do you already know about this subject from personal experience?
3. What have you learned about this in the earlier chapters?
4. What gaps exist in your knowledge of this subject?

Exploring the Real World of Business

Google Inc.

Think about how often you look for information on the Internet, whether it is for school or just something you find interesting. There is a good chance your first stop is Google. Larry Page and Sergey Brin were students at Stanford University when they met in 1995. During the next few years, they worked together on Web search technology. They developed a way to do searches using personal computers instead of big, expensive machines.

The company Google Inc. was started in a garage in 1998. The site performed about 10,000 searches a day. Within two and one-half years, that number grew to 100 million. Today Google is the top Internet search engine. The company takes in billions of dollars in advertising each year, keeping its team of accountants busy.

What Do You Think?

If you were just starting an Internet company, what types of financial information would you record?
Have you ever kept a daily journal of the things that happen during your day? The general journal of a business is similar. The daily financial happenings are recorded there. A company like Google sells advertising, invests in computer equipment, and pays software engineers. You will learn how to record business transactions in a journal in this chapter.

**Working in the Real World**

**APPLYING YOUR ACCOUNTING KNOWLEDGE**

Have you ever kept a daily journal of the things that happen during your day? The general journal of a business is similar. The daily financial happenings are recorded there. A company like Google sells advertising, invests in computer equipment, and pays software engineers. You will learn how to record business transactions in a journal in this chapter.

**Personal Connection**

1. In your workplace, why is it important to keep accurate records of daily transactions?
2. List five business transactions that happen in your workplace.

**Online Connection**

Go to [glencoeaccounting.glencoe.com](http://glencoeaccounting.glencoe.com) and click on Student Center. Click on Working in the Real World and select Chapter 6.
In earlier chapters you learned to use the accounting equation and T accounts to analyze business transactions. In this chapter you will learn how to record business transactions in a journal.

**The Steps of the Accounting Cycle**

What Is the Accounting Cycle?

The accounting period of a business is separated into activities called the **accounting cycle**. These activities help the business keep its accounting records in an orderly fashion. Take a look at Figure 6–1, which describes accounting activities and their sequence.

In this chapter you will use Steps 1, 2, and 3 of the accounting cycle:

1. Collect and verify source documents.
2. Analyze each transaction.
3. Journalize each transaction.

After studying Chapters 3 through 10, you will have covered the entire accounting cycle for a service business organized as a sole proprietorship.
The First Step in the Accounting Cycle: Collecting and Verifying Source Documents

Most business transactions take place during the daily operations of a business. In the course of one day, a business may pay its rent, place an ad in a local newspaper, contract to have a website created, pay its employees, sell products, and purchase new equipment. When a business transaction occurs, a paper is prepared as evidence of that transaction. This paper is a source document.

There are several types of source documents that can be prepared by hand, by computer, or by a machine. The type of source document prepared depends on the nature of the transaction. Figure 6–2 describes and illustrates commonly used source documents.

**Invoice**

Lists specific information about a business transaction involving the buying or selling of an item on account. The invoice contains the date of the transaction; the quantity, description, and cost of each item; and the payment terms.

**Receipt**

A record of cash received by a business. It indicates the date the payment was received, the name of the person or business from whom the payment was received, and the amount of the payment.

**Memorandum**

A brief written message that describes a transaction that takes place within a business. A memorandum is often used if no other source document exists for the business transaction.

**Check Stub**

The check stub lists the same information that appears on a check: the date written, the person or business to whom the check was written, and the amount of the check. The check stub also shows the balance in the checking account before and after each check is written.
The business owner, accountant, or accounting clerk (depending on the size of the business) uses source documents generated by business transactions to keep the records of the business. The accounting cycle starts by collecting and verifying the accuracy of source documents. One important activity is to check the arithmetic on each source document.

The Second Step in the Accounting Cycle: Analyzing Business Transactions

After collecting and verifying source documents, the second step in the accounting cycle can begin—analyzing information on the source documents to determine the debit and credit parts of each transaction.

You have already learned how to analyze business transactions using the rules of debit and credit. When you learned to analyze transactions, you were given a description of each transaction, such as: Roadrunner Delivery Service bought a computer system from Info-Systems Inc. for $3,000 and issued Check 101 in payment. On the job you will not get a description of the transaction. Instead, you must examine a source document to determine what occurred during a business transaction.

The Third Step in the Accounting Cycle: Recording Business Transactions in a Journal

You are now ready to apply information from source documents. The third step in the accounting cycle is to record the debit and credit parts of each business transaction in a journal. A journal is a record of the transactions of a business. Journals are kept in chronological order, that is, the order in which the transactions occur. The process of recording business transactions in a journal is called journalizing. Keeping a journal can be compared to keeping a diary in which all important events are written. A journal is the only place where complete details of a transaction, including both the debit and credit parts, are recorded. The journal is sometimes called the book of original entry because it is where transactions are first entered in the accounting system.

The Accounting Period

What Are the Different Types of Accounting Periods?

As discussed in Chapter 2, accounting records are summarized for a certain period of time, called an accounting period. An accounting period may be for any designated length of time, such as a month, a quarter, or a year. Most businesses use a year as their accounting period. An accounting period of 12 months is called a fiscal year. If the fiscal year for a business begins on January 1 and ends on December 31, it is called a calendar year accounting period. Many businesses start their accounting periods in months other than January. For example, department stores often have fiscal years that begin on February 1 and end on January 31 of the following year. School districts usually have fiscal years that begin on July 1 and end on June 30.
Assessment

SECTION 1

Do the Math
Glen’s Catering received an invoice from Conover Restaurant Suppliers for the following supplies:

- 6 cartons of napkins at $4.88 per carton
- 3 boxes of salt packets at $3.19 per box
- 3 boxes of paper plates at $7.28 per box
- 4 boxes of medium paper cups at $8.24 per box

Calculate the total for each item on the invoice. Then calculate the total for all items.

Problem 6–1 Analyzing a Source Document
Instructions  Analyze the invoice shown below and answer the following questions.

<table>
<thead>
<tr>
<th>JAYMAX OFFICE SUPPLY</th>
</tr>
</thead>
<tbody>
<tr>
<td>554 Town Square</td>
</tr>
<tr>
<td>Fort Myers, FL 33902</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dario’s Accounting Services</td>
</tr>
<tr>
<td>5821 Gulf Blvd.</td>
</tr>
<tr>
<td>Naples, FL 33940</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>INVOICE NO. 479</th>
</tr>
</thead>
<tbody>
<tr>
<td>DATE: Apr. 9, 20--</td>
</tr>
<tr>
<td>ORDER NO.:</td>
</tr>
<tr>
<td>SHIPPED BY: Truck</td>
</tr>
<tr>
<td>TERMS: Payable in 30 days</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>QTY.</th>
<th>ITEM</th>
<th>UNIT PRICE</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Fax Machine</td>
<td>$ 299.00</td>
<td>$ 299.00</td>
</tr>
</tbody>
</table>

1. What is the name of the company providing the service or merchandise?
2. What is the name of the business receiving the service or merchandise?
3. What is the date of the invoice?
4. What is the invoice number?
5. What item was sold?
6. What is the price for this item?
7. What are the payment terms?
Recording Transactions in the General Journal

In Section 1 you learned about the first three steps in the accounting cycle. Let’s apply these steps to business transactions for Roadrunner Delivery Service.

Recording a General Journal Entry

How Do You Record a General Journal Entry?

Many kinds of accounting journals are used in business. One of the most common is the general journal. As its name suggests, the general journal is an all-purpose journal in which all of the transactions of a business may be recorded. Figure 6–3 shows the general journal you will be using throughout the accounting cycle for Roadrunner Delivery Service. The general journal has two amount columns. The first amount column, the amount column on the left, is used to record debit amounts. (Remember that debit means left.) The second amount column, the amount column on the right, is used to record credit amounts. (Remember that credit means right.) Look at Figure 6–3 to find where each component of a general journal entry appears.

In Chapters 4 and 5, you learned a step-by-step method for analyzing business transactions. In this chapter you will learn to complete the journal entry for a business transaction in the same manner. Review the following steps before you continue.

Figure 6–3 General Journal for Roadrunner Delivery Service

In Chapters 4 and 5, you learned a step-by-step method for analyzing business transactions. In this chapter you will learn to complete the journal entry for a business transaction in the same manner. Review the following steps before you continue.
1. Identify the accounts affected.
2. Classify the accounts affected.
3. Determine the amount of increase or decrease for each account affected.

DEBIT-CREDIT RULE
4. Which account is debited? For what amount?
5. Which account is credited? For what amount?

T ACCOUNTS
6. What is the complete entry in T-account form?

JOURNAL ENTRY
7. What is the complete entry in general journal form?

Use these steps to determine the debit and credit parts of each journal entry. Remember, it is always helpful to use T accounts to analyze transactions. After analyzing many transactions, you will find that you need these tools less and less to determine the debit and credit parts of a journal entry. After the complete entry is recorded, verify that the total debits and total credits are equal.

Now, let’s examine business transactions and their analysis for Roadrunner Delivery Service.

**Business Transaction 1**

On October 1 Maria Sanchez took $25,000 from personal savings and deposited that amount to open a business checking account in the name of Roadrunner Delivery Service, Memorandum 1.

**ANALYSIS**
1. The accounts **Cash in Bank** and **Maria Sanchez, Capital** are affected.
2. **Cash in Bank** is an asset account. **Maria Sanchez, Capital** is an owner’s capital account.
3. **Cash in Bank** is increased by $25,000. **Maria Sanchez, Capital** is increased by $25,000.

**DEBIT-CREDIT RULE**
4. Increases in asset accounts are recorded as debits. Debit **Cash in Bank** for $25,000.
5. Increases in the owner’s capital account are recorded as credits. Credit **Maria Sanchez, Capital** for $25,000.
Look again at the general journal entry shown above. Notice that in the upper right-hand corner there is a line for the page number. Journal pages are numbered in consecutive order; that is, 1, 2, 3, and so on. When you fill one page with journal entries, go on to the next page. Be sure to properly number each new page.

**Business Transaction 2**

On October 2 Maria Sanchez took two telephones valued at $200 each from her home and transferred them to the business as office equipment, Memorandum 2.

**ANALYSIS**

1. **Identify**
   - The accounts Office Equipment and Maria Sanchez, Capital are affected.

2. **Classify**
   - Office Equipment is an asset account. Maria Sanchez, Capital is an owner's capital account.

3. **+/-**
   - Office Equipment is increased by $400. Maria Sanchez, Capital is increased by $400.

**DEBIT-CREDIT RULE**

4. Increases in asset accounts are recorded as debits. Debit Office Equipment for $400.

5. Increases in owner's capital accounts are recorded as credits. Credit Maria Sanchez, Capital for $400.

**T ACCOUNTS**

6. Office Equipment
   - Debit: 400
   - Credit: -

Maria Sanchez, Capital
   - Debit: -
   - Credit: 400
Business Transaction 3

On October 4 Roadrunner issued Check 101 for $3,000 to buy a computer system.

ANALYSIS

Identify
1. The accounts Computer Equipment and Cash in Bank are affected.

Classify
2. Computer Equipment and Cash in Bank are asset accounts.

+/−
3. Computer Equipment is increased by $3,000. Cash in Bank is decreased by $3,000.

DEBIT-CREDIT RULE

4. Increases in asset accounts are recorded as debits. Debit Computer Equipment for $3,000.
5. Decreases in asset accounts are recorded as credits. Credit Cash in Bank for $3,000.

T ACCOUNTS

6. Computer Equipment
   Debit + 3,000
   Credit −

   Cash in Bank
   Debit + 3,000
   Credit −

JOURNAL ENTRY

7. GENERAL JOURNAL

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Computer Equipment</td>
<td></td>
<td>3000</td>
<td>00</td>
</tr>
<tr>
<td>5</td>
<td>Cash in Bank</td>
<td></td>
<td>00</td>
<td>3000</td>
</tr>
<tr>
<td>10</td>
<td>Check 101</td>
<td></td>
<td>00</td>
<td>3000</td>
</tr>
<tr>
<td>11</td>
<td></td>
<td></td>
<td>00</td>
<td>3000</td>
</tr>
</tbody>
</table>
Business Transaction 4

On October 9 Roadrunner bought a used truck on account from North Shore Auto for $12,000, Invoice 200.

ANALYSIS

Identify

1. The accounts Delivery Equipment and Accounts Payable—North Shore Auto are affected.

Classify

2. Delivery Equipment is an asset account. Accounts Payable—North Shore Auto is a liability account.

+/-

3. Delivery Equipment is increased by $12,000. Accounts Payable—North Shore Auto is increased by $12,000.

DEBIT-CREDIT RULE

4. Increases in asset accounts are recorded as debits. Debit Delivery Equipment for $12,000.

5. Increases in liability accounts are recorded as credits. Credit Accounts Payable—North Shore Auto for $12,000.

T ACCOUNTS

6. Delivery Equipment

\[ \text{Debit} + 12,000 \]

\[ \text{Credit} - \]

Accounts Payable—North Shore Auto

\[ \text{Debit} - \]

\[ \text{Credit} + 12,000 \]

JOURNAL ENTRY

7. GENERAL JOURNAL

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST. REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Oct. 9 Delivery Equipment</td>
<td></td>
<td>12,000</td>
<td>12,000</td>
</tr>
<tr>
<td>12</td>
<td>Accts. Pay.—North Shore Auto</td>
<td>Invoice 200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td></td>
<td></td>
<td>12,000</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td></td>
<td></td>
<td></td>
<td>12,000</td>
</tr>
</tbody>
</table>

As You Read

In Your Own Words

On Account In Business Transaction 4, Roadrunner “bought a used truck on account…” What does this mean?

To separate the amounts to be paid to individual creditors, Roadrunner uses a different account name for each creditor. The account name consists of Accounts Payable followed by the name of the creditor. You may have to abbreviate the name to fit it on one line of the journal. An acceptable abbreviation in the preceding journal entry is Accts. Pay.—North Shore Auto.

Roadrunner uses the same naming system for the amounts to be paid by individual customers. The account name consists of Accounts Receivable followed by the customer’s name.
**Business Transaction 5**

On October 11 Roadrunner sold one telephone on account to Green Company for $200, Memorandum 3.

**ANALYSIS**

1. The accounts Accounts Receivable—Green Company and Office Equipment are affected.
2. Both accounts are asset accounts.
3. Accounts Receivable—Green Company is increased by $200. Office Equipment is decreased by $200.

**DEBIT-CREDIT RULE**

5. Credit Office Equipment for $200.

**T ACCOUNTS**

6. Accounts Receivable—Green Company
   
<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>200</td>
<td>-</td>
</tr>
</tbody>
</table>

   Office Equipment
   
<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
<td>200</td>
</tr>
</tbody>
</table>

**JOURNAL ENTRY**

7. 

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>Oct. 11 Accts. Rec.—Green Company</td>
<td>200000</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Office Equipment</td>
<td>200000</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Memorandum 3</td>
<td>17</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Business Transaction 6**

On October 12 Roadrunner mailed Check 102 for $350 as the first installment on the truck purchased from North Shore Auto on October 9.

**ANALYSIS**

1. The accounts Accounts Payable—North Shore Auto and Cash in Bank are affected.
2. Accounts Payable—North Shore Auto is a liability account. Cash in Bank is an asset account.
3. Both accounts are decreased by $350.

**DEBIT-CREDIT RULE**

No change in assets, liabilities, equities, or accounts receivable.
Business Transaction 7

On October 14 Roadrunner received and deposited a check for $200 from Green Company, Receipt 1. The check is full payment for the telephone sold on account to Green on October 11.

ANALYSIS  Identify

1. The accounts **Cash in Bank** and **Accounts Receivable—Green Company** are affected.

   Classify

2. **Cash in Bank** is an asset account. **Accounts Receivable—Green Company** is an asset account.

3. **Cash in Bank** is increased by $200. **Accounts Receivable—Green Company** is decreased by $200.

DEBIT-CREDIT RULE  Identify

4. Debit **Cash in Bank** for $200.

   5. Credit **Accounts Receivable—Green Company** for $200.

T ACCOUNTS  Identify

6. Cash in Bank

   - Debit $200
   - Credit

   Accounts Receivable—Green Company

   - Debit
   - Credit $200
### JOURNAL ENTRY

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>Cash in Bank</td>
<td></td>
<td>20000</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Accts. Rec.—Green Company</td>
<td></td>
<td>20000</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Receipt 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Business Transaction 8

On October 15 Roadrunner provided delivery services for Sims Corporation. A check for $1,200 was received in full payment, Receipt 2.

#### ANALYSIS

**Identify**

1. The accounts *Cash in Bank* and *Delivery Revenue* are affected.

**Classify**

2. *Cash in Bank* is an asset account. *Delivery Revenue* is a revenue account.

3. *Cash in Bank* is increased by $1,200. *Delivery Revenue* is increased by $1,200.

#### DEBIT-CREDIT RULE

4. Increases in asset accounts are recorded as debits. Debit *Cash in Bank* for $1,200.

5. Increases in revenue accounts are recorded as credits. Credit *Delivery Revenue* for $1,200.

#### T ACCOUNTS

<table>
<thead>
<tr>
<th></th>
<th>Cash in Bank</th>
<th>Delivery Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit</td>
<td>1,200</td>
<td></td>
</tr>
<tr>
<td>Credit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debit</td>
<td></td>
<td>1,200</td>
</tr>
<tr>
<td>Credit</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### JOURNAL ENTRY

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>Cash in Bank</td>
<td></td>
<td>20000</td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>Delivery Revenue</td>
<td></td>
<td>20000</td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Receipt 2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>26</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Business Transaction 9**

On October 16 Roadrunner mailed Check 103 for $700 to pay the month’s rent.

**ANALYSIS**

1. The accounts **Rent Expense** and **Cash in Bank** are affected.
2. **Rent Expense** is an expense. **Cash in Bank** is an asset.
3. **Rent Expense** is increased by $700. **Cash in Bank** is decreased by $700.

**DEBIT-CREDIT RULE**

4. Increases in expense accounts are recorded as debits. Debit **Rent Expense** for $700.
5. Decreases in asset accounts are recorded as credits. Credit **Cash in Bank** for $700.

**T ACCOUNTS**

6. Balancing T Accounts:
   - **Rent Expense**: Debit + 700 Credit −
   - **Cash in Bank**: Debit + 700 Credit −

**JOURNAL ENTRY**

7. **GENERAL JOURNAL**

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST. REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct. 16</td>
<td>Rent Expense</td>
<td>70000</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash in Bank</td>
<td>70000</td>
<td>27</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Check 103</td>
<td></td>
<td>28</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>29</td>
<td></td>
</tr>
</tbody>
</table>

**T Account for Check 103:**

- Balance brought forward: 21,650 00
- Add deposits 10/14: 200 00
- 10/15: 1,200 00
- Total: 23,050 00
- Less this check: 700 00
- Balance carried forward: 22,350 00

---

**Business Transaction 10**

On October 18 Beacon Advertising prepared an advertisement for Roadrunner. Roadrunner will pay Beacon’s $75 fee later, Invoice 129.

**ANALYSIS**

1. The accounts **Advertising Expense** and **Accounts Payable—Beacon Advertising** are affected.
2. **Advertising Expense** is an expense account. **Accounts Payable—Beacon Advertising** is a liability account.
3. **Advertising Expense** is increased by $75. **Accounts Payable—Beacon Advertising** is increased by $75.
DEBIT-CREDIT RULE

4. Increases in expense accounts are recorded as debits. Debit Advertising Expense for $75.

5. Increases in liability accounts are recorded as credits. Credit Accounts Payable—Beacon Advertising for $75.

T ACCOUNTS

6. Advertising Expense
   | Debit | Credit |
   +-----+--------+
   + 75  |        |

   Accounts Payable—Beacon Advertising
   | Debit | Credit |
   +-----+--------+
   + 75  |        |

JOURNAL ENTRY

7. GENERAL JOURNAL

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST. REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>29</td>
<td>Oct.  18 Advertising Expense</td>
<td></td>
<td>7500</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Accts. Pay.—Beacon Adv.</td>
<td>Invoice 129</td>
<td></td>
<td>7500</td>
</tr>
<tr>
<td>31</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>32</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

ANALYSIS

1. The accounts Accounts Receivable—City News and Delivery Revenue are affected.

2. Accounts Receivable—City News is an asset account. Delivery Revenue is a revenue account.

3. Accounts Receivable—City News is increased by $1,450. Delivery Revenue is increased by $1,450.

DEBIT-CREDIT RULE

4. Increases in asset accounts are recorded as debits. Debit Accounts Receivable—City News for $1,450.

5. Increases in revenue accounts are recorded as credits. Credit Delivery Revenue for $1,450.

T ACCOUNTS

6. Accounts Receivable—City News
   | Debit | Credit |
   +-----+--------+
   + 1,450 |        |

   Delivery Revenue
   | Debit | Credit |
   +-----+--------+
   + 1,450 |        |
7. **JOURNAL ENTRY**

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST. REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct. 20</td>
<td>Accts. Rec.—City News</td>
<td>12500</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td></td>
<td>Delivery Revenue</td>
<td>12500</td>
<td>33</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td>Sales Invoice 1</td>
<td>12500</td>
<td>34</td>
<td>34</td>
</tr>
<tr>
<td></td>
<td></td>
<td>12500</td>
<td>35</td>
<td>35</td>
</tr>
</tbody>
</table>

**Business Transaction 12**

On October 28 Roadrunner paid a $125 telephone bill with Check 104.

**ANALYSIS**

1. The accounts **Utilities Expense** and **Cash in Bank** are affected.
2. **Utilities Expense** is an expense account. **Cash in Bank** is an asset account.
3. **Utilities Expense** is increased by $125. **Cash in Bank** is decreased by $125.

**DEBIT-CREDIT RULE**

4. Increases in expense accounts are recorded as debits. Debit **Utilities Expense** for $125.
5. Decreases in asset accounts are recorded as credits. Credit **Cash in Bank** for $125.

**T ACCOUNTS**

<table>
<thead>
<tr>
<th></th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Utilities Expense</strong></td>
<td>+125</td>
<td>-</td>
</tr>
<tr>
<td><strong>Cash in Bank</strong></td>
<td>-</td>
<td>+125</td>
</tr>
</tbody>
</table>

**JOURNAL ENTRY**

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST. REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct. 28</td>
<td>Utilities Expense</td>
<td>12500</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td></td>
<td>Cash in Bank</td>
<td>12500</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td></td>
<td>Check 104</td>
<td>12500</td>
<td>37</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td></td>
<td>12500</td>
<td>38</td>
<td>38</td>
</tr>
</tbody>
</table>
Business Transaction 13

On October 29 Roadrunner wrote Check 105 for $600 to have the office repainted.

1. The accounts Maintenance Expense and Cash in Bank are affected.

2. Maintenance Expense is an expense account. Cash in Bank is an asset account.

3. Maintenance Expense is increased by $600. Cash in Bank is decreased by $600.

DEBIT-CREDIT RULE

4. Increases in expense accounts are recorded as debits. Debit Maintenance Expense for $600.

5. Decreases in asset accounts are recorded as credits. Credit Cash in Bank for $600.

T ACCOUNTS

6. Maintenance Expense
   
<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ 600</td>
<td>-</td>
</tr>
</tbody>
</table>

   Cash in Bank
   
<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>+</td>
<td>- 600</td>
</tr>
</tbody>
</table>

JOURNAL ENTRY

7. GENERAL JOURNAL

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct. 29</td>
<td>Maintenance Expense</td>
<td>600.00</td>
<td>38</td>
<td></td>
</tr>
<tr>
<td>39</td>
<td>Cash in Bank</td>
<td>600.00</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>40</td>
<td>Check 105</td>
<td>41</td>
<td>41</td>
<td></td>
</tr>
</tbody>
</table>

Business Transaction 14

On October 31 Maria Sanchez wrote Check 106 to withdraw $500 cash for personal use.

1. The accounts Maria Sanchez, Withdrawals and Cash in Bank are affected.

2. Maria Sanchez, Withdrawals is an owner’s withdrawals account. Cash in Bank is an asset account.

3. Maria Sanchez, Withdrawals is increased by $500. Cash in Bank is decreased by $500.
DEBIT-CREDIT RULE
4. Increases in the owner’s withdrawals account are recorded as debits. Debit Maria Sanchez, Withdrawals for $500.
5. Decreases in asset accounts are recorded as credits. Credit Cash in Bank for $500.

T ACCOUNTS
6. Maria Sanchez, Withdrawals
   Debit  Credit
   500       

   Cash in Bank
   Debit  Credit
   500       

JOURNAL ENTRY
7. GENERAL JOURNAL
   PAGE 1
   DATE  DESCRIPTION  POST.  DEBIT  CREDIT
   Oct. 31 Maria Sanchez, Withdrawals  500  0
   Cash in Bank  0  500
   Check 106  0  0

Correcting the General Journal
How Do You Correct Errors in the General Journal?

Occasionally, errors occur when journalizing transactions. When an error is discovered, it must be corrected.

In a manual system, an error should never be erased. An erasure looks suspicious. It might be seen as an attempt to cover up a mistake or, worse, to change the accounting records illegally. To correct errors, use a pen and a ruler to draw a horizontal line through the entire incorrect item and write the correct information above the crossed-out error. A correction for an erroneous amount is shown in the general journal as follows:

GENERAL JOURNAL
   PAGE 1
   DATE  DESCRIPTION  POST.  DEBIT  CREDIT
   1 20--    
   2 Oct. 1 Cash in Bank  25 0 0 0 00  25 0 0 0 00
   3 Maria Sanchez, Capital  52 0 0 0 00  52 0 0 0 00
   4 Memorandum 1  0  0

To correct for an erroneous account name, cross out the incorrect information and write the correct account name above.
Assessment

Do the Math

Hania Dance Company bought a computer system on account from Tech World. The regular price for the system is $3,000, but Tech World reduced the price by 20 percent for a storewide sale. Answer the following questions about the journal entry for this transaction.

1. Which account is debited and for what amount?
2. Which account is credited and for what amount?

Problem 6–2 Recording Business Transactions

Instructions The six steps for recording a business transaction in the general journal are shown below, out of order. In your working papers or on a blank sheet of paper, indicate the proper order of these steps.

A. Amount of the credit  D. Date of the transaction
B. Name of the account credited  E. Amount of the debit
C. Source document reference  F. Name of the account debited

Problem 6–3 Analyzing Transactions

Glenda Hohn recently started a day-care center. She uses the following accounts.

General Ledger

| Cash in Bank | Glenda Hohn, Capital |
| Accts. Rec.—Tiny Tots Nursery | Glenda Hohn, Withdrawals |
| Office Furniture | Day-Care Fees |
| Passenger Van | Utilities Expense |
| Accts. Pay.—Acme Bus Service | Van Expense |

Instructions In your working papers or on a separate sheet of paper, for each transaction: Determine which accounts are affected. Classify each account. Determine whether the accounts are being increased or decreased. Indicate which account is debited and which account is credited.

Transactions:

1. Bought a passenger van for cash.
2. Paid the telephone bill for the month.
3. Received cash from customers for day-care services.
Key Concepts

1. The accounting cycle is pictured below. The first three steps are highlighted:
   - Step 1: Collect and verify source documents.
   - Step 2: Analyze each transaction.
   - Step 3: Journalize each transaction.

2. Source documents are evidence of business transactions. Four examples of source documents are listed below.
   - Invoice describes the buying or selling of an item on account
   - Receipt describes cash received by a business
   - Memorandum describes a transaction that takes place within a business
   - Check Stub describes a specific check and shows the checking account balance

3. Businesses use journals to keep records of transactions in the order they occur. The process of recording transactions in a journal is called journalizing.

4. Source documents contain the information needed for journalizing transactions. The check stub shown to the right is a source document. The highlighted information is used to make the journal entry.
5. Follow six steps to make a general journal entry:

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST. REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov. 2</td>
<td>Office Equipment</td>
<td></td>
<td>2,500</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Cash in Bank</td>
<td></td>
<td></td>
<td>2,500</td>
</tr>
<tr>
<td></td>
<td>Check 110</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. Notice how information is applied from the source document (Check Stub 110) to the general journal.

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST. REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov. 2</td>
<td>Office Equipment</td>
<td></td>
<td>2,500</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Cash in Bank</td>
<td></td>
<td></td>
<td>2,500</td>
</tr>
<tr>
<td></td>
<td>Check 110</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. In a manual system, never erase a general journal error. The procedure to correct an error is shown below.

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST. REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov. 2</td>
<td>Office Equipment</td>
<td></td>
<td>2,500</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Cash in Bank</td>
<td></td>
<td></td>
<td>2,500</td>
</tr>
<tr>
<td></td>
<td>Check 110</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Key Terms

- accounting cycle (p. 132)
- calendar year (p. 134)
- check stub (p. 133)
- fiscal year (p. 134)
- general journal (p. 136)
- invoice (p. 133)
- journal (p. 134)
- journalizing (p. 134)
- memorandum (p. 133)
- receipt (p. 133)
- source document (p. 133)
Check Your Understanding

1. Accounting Cycle
   a. List the first three steps of the accounting cycle.
   b. What would happen if you skipped Step 2?

2. Source Documents
   a. List four source documents and describe the contents of each.
   b. Explain when each source document is used.

3. Journalizing
   a. Why is a journal sometimes called the book of original entry?
   b. What is the purpose of recording transactions in a journal?

4. Applying Information
   a. Where do you get the information needed to make a journal entry?
   b. How do you determine the debit and credit parts of a journal entry?

5. Steps to Make a General Journal Entry
   a. What six types of information are included in each general journal entry?
   b. In what order do you record this information?

6. Making General Journal Entries
   a. How are the two amount columns of the general journal used to record dollar amounts?
   b. Describe the spacing of the information in the Description column.

7. Correcting General Journal Errors
   a. What procedure is used to correct a general journal entry error in a manual system?
   b. What are the possible consequences of erasing an error in the general journal?

Apply Key Terms

Assume you are an accountant who keeps financial records for small businesses. Write a one-page newsletter that you might send to potential clients describing the importance of accounting records. Use each of the terms below in your newsletter.

accounting cycle  journal
calendar year     journalizing
check stub       memorandum
fiscal year      receipt
general journal  source document
invoice
## General Journal Entries

### Making the Transition from a Manual to a Computerized System

<table>
<thead>
<tr>
<th>Task</th>
<th>Manual Methods</th>
<th>Computerized Methods</th>
</tr>
</thead>
</table>
| Recording general journal entries | • Analyze the source document to determine which accounts are affected.  
• Using a general journal form, enter the details of the transaction.  
• Check for equality of debits and credits. | • Analyze the source document to determine which accounts are affected.  
• Enter the transaction details in the general journal using the account numbers for each ledger account.  
• The software will calculate the equality of debits and credits. |

### Peachtree Q & A

<table>
<thead>
<tr>
<th>Peachtree Question</th>
<th>Answer</th>
</tr>
</thead>
</table>
| How do I enter general journal entries in Peachtree? | 1. From the **Tasks** menu, select **General Journal Entry**.  
2. Enter the date of the transaction.  
3. Enter the source document reference.  
4. Enter the account number to be debited.  
5. Enter a brief description of the transaction.  
6. Enter the debit amount.  
7. Enter the account number to be credited.  
8. Enter the credit amount.  
9. Click **Save**. |

### QuickBooks Q & A

<table>
<thead>
<tr>
<th>QuickBooks Question</th>
<th>Answer</th>
</tr>
</thead>
</table>
| How do I enter general journal entries in QuickBooks? | 1. From the **Company** menu, select **Make General Journal Entries**.  
2. Enter the date of the transaction.  
3. Enter the account to be debited.  
4. Enter the debit amount, source document reference, and description.  
5. Enter the account to be credited.  
6. Enter the credit amount, source document reference, and description.  
7. Click **Save & Close**. |
CHAPTER 6 Problems

**Problem 6–4 Recording General Journal Transactions**

Ronald Hicks owns and operates Wilderness Rentals. The following accounts are needed to journalize the month’s transactions.

### General Ledger

<table>
<thead>
<tr>
<th>Account Number</th>
<th>Account Name</th>
<th>Account Number</th>
<th>Account Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>101</td>
<td>Cash in Bank</td>
<td>301</td>
<td>Ronald Hicks, Capital</td>
</tr>
<tr>
<td>105</td>
<td>Accts. Rec.—Helen Katz</td>
<td>305</td>
<td>Ronald Hicks, Withdrawals</td>
</tr>
<tr>
<td>110</td>
<td>Accts. Rec.—Polk and Co.</td>
<td>310</td>
<td>Income Summary</td>
</tr>
<tr>
<td>120</td>
<td>Office Equipment</td>
<td>401</td>
<td>Equipment Rental Revenue</td>
</tr>
<tr>
<td>125</td>
<td>Camping Equipment</td>
<td>501</td>
<td>Advertising Expense</td>
</tr>
<tr>
<td>201</td>
<td>Accts. Pay.—Adventure Equipment Inc.</td>
<td>505</td>
<td>Maintenance Expense</td>
</tr>
<tr>
<td>203</td>
<td>Accts. Pay.—Digital Tech Computers</td>
<td>515</td>
<td>Rent Expense</td>
</tr>
<tr>
<td>205</td>
<td>Accts. Pay.—Greg Mollaro</td>
<td>520</td>
<td>Salaries Expense</td>
</tr>
<tr>
<td></td>
<td></td>
<td>525</td>
<td>Utilities Expense</td>
</tr>
</tbody>
</table>

### Instructions:

Record the following transactions on page 1 of the general journal in your working papers. For each transaction:

1. Enter the date. Use the current year.
2. Enter the name of the account debited.
3. Enter the amount of the debit.
4. Enter the name of the account credited.
5. Enter the amount of the credit.

<table>
<thead>
<tr>
<th>Date</th>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1</td>
<td>Wrote Check 310 for the part-time secretary’s salary, $270.</td>
</tr>
<tr>
<td>3</td>
<td>Bought $2,000 of camping equipment on account from Adventure Equipment Inc., Invoice 320.</td>
</tr>
<tr>
<td>5</td>
<td>Received $500 from a client for equipment rental, Receipt 150.</td>
</tr>
<tr>
<td>7</td>
<td>Wrote Check 311 to pay the electricity bill of $110.</td>
</tr>
<tr>
<td>11</td>
<td>Billed a client, Polk and Co., $1,700 for rental equipment, Sales Invoice 262.</td>
</tr>
<tr>
<td>12</td>
<td>Ronald Hicks withdrew $800 for personal use, Check 312.</td>
</tr>
<tr>
<td>14</td>
<td>Bought a $300 scanner for the office computer from Digital Tech Computers, on account, Invoice 270.</td>
</tr>
<tr>
<td>16</td>
<td>Wrote Check 313 for $1,000 as an installment payment toward the amount owed to Adventure Equipment Inc.</td>
</tr>
<tr>
<td>25</td>
<td>Received $1,700 from Polk and Co. in payment on their account, Receipt 151.</td>
</tr>
<tr>
<td>30</td>
<td>Paid Digital Tech Computers $300 for the amount owed, Check 314.</td>
</tr>
</tbody>
</table>

### Analyze

Calculate the amount of cash deducted from the Cash in Bank account in January.
**Problems**

**CHAPTER 6**

**Step–by–Step Instructions:**

**Problem 6–5**

1. Select the problem set for Hot Suds Car Wash (Prob. 6–5).
2. Rename the company and set the system date.
3. Enter all of the general journal transactions using the General Journal Entry option in the Tasks menu.
5. Proof your work and make any needed corrections.
6. Complete the Analyze activity.
7. End the session.

**TIP:** You can use General Ledger Navigation Aid as an alternative way to access the General Journal Entry window.

---

**Problems**

**Problem 6–5**

**Recording General Journal Transactions**

Regina Delgado owns a business called Hot Suds Car Wash. She uses the following chart of accounts.

<table>
<thead>
<tr>
<th>General Ledger</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>101 Cash in Bank</td>
<td>401 Wash Revenue</td>
</tr>
<tr>
<td>105 Accts. Rec.—Linda Brown</td>
<td>405 Wax Revenue</td>
</tr>
<tr>
<td>110 Accts. Rec.—Valley Auto</td>
<td>410 Interior Detailing Revenue</td>
</tr>
<tr>
<td>125 Office Equipment</td>
<td>501 Advertising Expense</td>
</tr>
<tr>
<td>130 Office Furniture</td>
<td>505 Equipment Rental Expense</td>
</tr>
<tr>
<td>135 Car Wash Equipment</td>
<td>510 Maintenance Expense</td>
</tr>
<tr>
<td>201 Accts. Pay.—Allen Vacuum Systems</td>
<td>520 Rent Expense</td>
</tr>
<tr>
<td>205 Accts. Pay.—O’Brian’s Office Supply</td>
<td>525 Salaries Expense</td>
</tr>
<tr>
<td>301 Regina Delgado, Capital</td>
<td>530 Utilities Expense</td>
</tr>
<tr>
<td>305 Regina Delgado, Withdrawals</td>
<td></td>
</tr>
<tr>
<td>310 Income Summary</td>
<td></td>
</tr>
</tbody>
</table>

**Instructions:** Record the following transactions on page 1 of the general journal in your working papers.

<table>
<thead>
<tr>
<th>Date</th>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1</td>
<td>Regina Delgado invested $12,000 in the business, Memorandum 41.</td>
</tr>
<tr>
<td>5</td>
<td>Purchased $5,000 in desks, chairs, and cabinets from O’Brian’s Office Supply on account, Invoice 1632.</td>
</tr>
<tr>
<td>8</td>
<td>Deposited $1,600 for income received from car washes for the week, Receipt 101.</td>
</tr>
<tr>
<td>10</td>
<td>Paid the Village Bulletin $75 for running an ad, Check 301.</td>
</tr>
<tr>
<td>13</td>
<td>Regina Delgado withdrew $900 for personal use, Check 302.</td>
</tr>
<tr>
<td>17</td>
<td>Billed Valley Auto $400 for interior detailing, Sales Invoice 102.</td>
</tr>
<tr>
<td>18</td>
<td>Paid O’Brian’s Office Supply $2,500 as an installment payment on account, Check 303.</td>
</tr>
<tr>
<td>20</td>
<td>Regina Delgado transferred to the business an electronic calculator valued at $350, Memorandum 42.</td>
</tr>
<tr>
<td>22</td>
<td>Wrote Check 304 for $600 to Shadyside Realty for the office rent.</td>
</tr>
<tr>
<td>24</td>
<td>Purchased $1,500 in car wash equipment from Allen Vacuum Systems on account, Invoice 312.</td>
</tr>
<tr>
<td>26</td>
<td>Received a $400 check from Valley Auto in full payment of its account, Receipt 102.</td>
</tr>
<tr>
<td>30</td>
<td>Issued Check 305 for $2,500 to O’Brian’s Office Supply for the balance due on account.</td>
</tr>
</tbody>
</table>

**Analyze**

Identify the revenue account that was not used in the month of January.
Problem 6–6 Recording General Journal Transactions

Abe Shultz owns and operates a pet grooming business called Kits & Pups Grooming. The following accounts are used to journalize transactions.

<table>
<thead>
<tr>
<th>General Ledger</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>101 Cash in Bank</td>
<td>207 Accts. Pay.—Pet Gourmet</td>
</tr>
<tr>
<td>105 Accts. Rec.—Juan Alvarez</td>
<td>301 Abe Shultz, Capital</td>
</tr>
<tr>
<td>110 Accts. Rec.—N. Carlsbad</td>
<td>305 Abe Shultz, Withdrawals</td>
</tr>
<tr>
<td>115 Accts. Rec.—Martha Giles</td>
<td>310 Income Summary</td>
</tr>
<tr>
<td>125 Office Equipment</td>
<td>401 Boarding Revenue</td>
</tr>
<tr>
<td>130 Office Furniture</td>
<td>405 Grooming Revenue</td>
</tr>
<tr>
<td>135 Computer Equipment</td>
<td>501 Advertising Expense</td>
</tr>
<tr>
<td>140 Grooming Equipment</td>
<td>505 Equipment Repair Expense</td>
</tr>
<tr>
<td>145 Kennel Equipment</td>
<td>510 Maintenance Expense</td>
</tr>
<tr>
<td>201 Accts. Pay.—Able Store Equipment</td>
<td>520 Rent Expense</td>
</tr>
<tr>
<td>205 Accts. Pay.—Dogs &amp; Cats Inc.</td>
<td>525 Salaries Expense</td>
</tr>
<tr>
<td></td>
<td>530 Utilities Expense</td>
</tr>
</tbody>
</table>

Instructions: Record the following transactions on page 7 of the general journal in your working papers.

**Date** | **Transactions**
---|---
Jan. 1 | Received $125 for boarding a client’s dog for one week, Receipt 300.
3 | Abe Shultz contributed to the business a computer valued at $2,500, Memorandum 33.
5 | Billed a client, Juan Alvarez, $80 for grooming his pets, Sales Invoice 212.
9 | Wrote Check 411 to Allegheny Power Co. for $150 in payment for the month’s electricity bill.
11 | Abe Shultz withdrew $700 for personal use, Check 412.
14 | Purchased kennel equipment for $2,600 from Dogs & Cats Inc., on account, Invoice DC92.
16 | Paid the part-time receptionist’s salary of $400 by issuing Check 413.
18 | Abe Shultz took from the business for his personal use a ten-key adding machine valued at $65, Memorandum 34.
23 | Juan Alvarez sent a check for $80 in full payment of his account, Receipt 301.
28 | Purchased on credit $250 in grooming equipment from the Pet Gourmet, Invoice PG333.
31 | Issued Check 414 for $1,300 as an installment payment for the amount owed to Dogs & Cats Inc.

**Analyze** Calculate the total of the Accounts Receivable accounts as of January 31.
Problem 6–7  Recording General Journal Transactions

Juanita Ortega is the owner of Outback Guide Service. The following accounts are used to record the transactions of her business.

<table>
<thead>
<tr>
<th>General Ledger</th>
<th></th>
<th></th>
</tr>
</thead>
</table>

Instructions: Record the following transactions on page 1 of the general journal in your working papers.

<table>
<thead>
<tr>
<th>Date</th>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1</td>
<td>Juanita Ortega contributed the following assets to her business: cash, $1,500; hiking equipment, $2,000; rafting equipment, $2,500; and office furniture, $500; Memorandum 21.</td>
</tr>
<tr>
<td>2</td>
<td>Issued Check 515 to Town News for a $75 ad.</td>
</tr>
<tr>
<td>4</td>
<td>Purchased $3,000 in rafting equipment on account from A-1 Adventure Warehouse, Invoice AW45.</td>
</tr>
<tr>
<td>6</td>
<td>A group from Feldman, Jones &amp; Ritter went on a hiking trip. The group was billed $4,800 for guide services, Sales Invoice 300.</td>
</tr>
<tr>
<td>10</td>
<td>Paid $300 to Dunn’s Painting and Interior Co. for painting the office, Check 516.</td>
</tr>
<tr>
<td>13</td>
<td>Made a $1,000 payment to A-1 Adventure Warehouse toward the amount owed, Check 517.</td>
</tr>
<tr>
<td>15</td>
<td>Received a check for $4,800 from Feldman, Jones &amp; Ritter in payment of their account, Receipt 252.</td>
</tr>
<tr>
<td>18</td>
<td>Juanita Ortega paid herself $600 by issuing Check 518.</td>
</tr>
<tr>
<td>22</td>
<td>Billed a client, Mary Johnson, $1,200 for completing guide services on a hiking expedition, Sales Invoice 301.</td>
</tr>
<tr>
<td>25</td>
<td>Paid the monthly telephone bill for $175 by issuing Check 519.</td>
</tr>
<tr>
<td>30</td>
<td>Purchased a $3,600 computer system from Premier Processors. Made a down payment for $1,800 and agreed to pay the balance within 30 days, Check 520 and Invoice 749.</td>
</tr>
</tbody>
</table>

Analyze Generalize about Outback’s cash sales and credit sales.
Problem 6–8 Recording General Journal Transactions

Greg Failla operates Showbiz Video. The following accounts are used to record business transactions.

General Ledger

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>101</td>
<td>Cash in Bank</td>
</tr>
<tr>
<td>105</td>
<td>Accts. Rec.—G. Cohen</td>
</tr>
<tr>
<td>110</td>
<td>Accts. Rec.—J. Coletti</td>
</tr>
<tr>
<td>113</td>
<td>Accts. Rec.—S. Flannery</td>
</tr>
<tr>
<td>115</td>
<td>Accts. Rec.—Spring Branch School District</td>
</tr>
<tr>
<td>130</td>
<td>Office Equipment</td>
</tr>
<tr>
<td>135</td>
<td>Office Furniture</td>
</tr>
<tr>
<td>140</td>
<td>Computer Equipment</td>
</tr>
<tr>
<td>145</td>
<td>Video Tapes</td>
</tr>
<tr>
<td>150</td>
<td>Video Equipment</td>
</tr>
<tr>
<td>201</td>
<td>Accts. Pay.—Broad Street Office Supply</td>
</tr>
<tr>
<td>205</td>
<td>Accts. Pay.—Computer Horizons</td>
</tr>
<tr>
<td>207</td>
<td>Accts. Pay.—New Media Suppliers</td>
</tr>
<tr>
<td>209</td>
<td>Accts. Pay.—Palace Films</td>
</tr>
<tr>
<td>301</td>
<td>Greg Failla, Capital</td>
</tr>
<tr>
<td>305</td>
<td>Greg Failla, Withdrawals</td>
</tr>
<tr>
<td>310</td>
<td>Income Summary</td>
</tr>
<tr>
<td>401</td>
<td>Video Rental Revenue</td>
</tr>
<tr>
<td>405</td>
<td>VCR Rental Revenue</td>
</tr>
<tr>
<td>501</td>
<td>Advertising Expense</td>
</tr>
<tr>
<td>505</td>
<td>Equipment Repair Expense</td>
</tr>
<tr>
<td>510</td>
<td>Maintenance Expense</td>
</tr>
<tr>
<td>520</td>
<td>Rent Expense</td>
</tr>
<tr>
<td>525</td>
<td>Salaries Expense</td>
</tr>
<tr>
<td>530</td>
<td>Utilities Expense</td>
</tr>
</tbody>
</table>

Instructions: Record the following transactions on page 5 of the general journal in your working papers.

<table>
<thead>
<tr>
<th>Date</th>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1</td>
<td>Deposited $3,400 in receipts. Of that amount, $1,900 was VCR rentals and $1,500 was video tape rentals, Receipt 435.</td>
</tr>
<tr>
<td></td>
<td>Wrote Check 1250 for $325 of equipment repairs.</td>
</tr>
<tr>
<td></td>
<td>Purchased $400 in video tapes from Palace Films on account, Invoice PF32.</td>
</tr>
<tr>
<td></td>
<td>Bought from New Media Suppliers $2,600 in video equipment. Made a down payment of $600 and agreed to pay the balance in two installments, Check 1251 and Invoice NM101.</td>
</tr>
<tr>
<td></td>
<td>Rented videos to Spring Branch School District. The school district agreed to pay $1,800 at a later date, Sales Invoice 1650.</td>
</tr>
<tr>
<td></td>
<td>Issued Check 1252 for $750 to Computer Horizons for the amount owed to them.</td>
</tr>
<tr>
<td></td>
<td>Deposited $5,600 in receipts. VCR rentals amounted to $4,400 and video tape rentals were $1,200, Receipt 436.</td>
</tr>
<tr>
<td></td>
<td>Paid Clear Vue Window Cleaners $100 for monthly window cleaning, Check 1253.</td>
</tr>
<tr>
<td></td>
<td>Made a $1,000 installment payment toward the amount owed to New Media Suppliers by issuing Check 1254.</td>
</tr>
</tbody>
</table>

Analyze Calculate the total expenses incurred in January.
Winning Competitive Events

CHAPTER 6

Practice your test-taking skills! The questions on this page are reprinted with permission from national organizations:

• Future Business Leaders of America
• Business Professionals of America

Use a separate sheet of paper to record your answers.

**Future Business Leaders of America**

**MULTIPLE CHOICE**

1. Recording account information in chronological order is called
   a. posting.
   b. journalizing.
   c. analyzing.
   d. processing.

2. Every journal consists of four parts:
   a. account title, date, post reference, amount.
   b. date, debit, credit, source document.
   c. date, page number, debit, credit.
   d. date, post reference, debit, credit.

3. The amount of each asset in an opening entry is recorded in a journal in the
   a. General Debit column.
   b. General Credit column.
   c. both a and b.
   d. neither a nor b.

4. An example of a business document that indicates a transaction has occurred is
   a. a journal.
   b. a ledger.
   c. a memo.
   d. a balance sheet.

**Business Professionals of America**

**MULTIPLE CHOICE**

5. The source document used when a customer makes a payment on his/her account owed would be a
   a. sales invoice.
   b. check.
   c. receipt.
   d. memorandum.

Need More Help?

Go to glencoeaccounting.glencoe.com and click on Student Center. Click on Winning Competitive Events and select Chapter 6.

• Practice Questions and Test-Taking Tips
• Concept Capsules and Terminology

**glencoeaccounting.glencoe.com**

Chapter 6  Winning Competitive Events  159
CHAPTER 6
Real-World Applications and Connections

General Journal Entries
1. What term describes any accounting period of 12 months?
2. How is the general journal entry for a cash purchase different from the entry for a purchase on account?
3. It is your first day on a new job. Your task is to journalize transactions. You just sat at your desk, which is covered with papers. What do you do next?
4. Compare a general journal entry to a transaction recorded in T accounts. How is it similar? How is it different?
5. What items do you need to complete each of the first three steps of the accounting cycle? Include office supplies and forms as well as any information that will be needed.
6. What is the value of keeping the record of business transactions in chronological order?

Service Business: Exercise and Fitness
Elena Rodriguez started a business offering an exercise facility and personal physical training. Elena has hired you as a financial consultant to help her set up her accounting system. She has rented a space for her business, purchased several exercise machines, and hired a part-time exercise instructor. Elena’s clients can either pay a fee for each visit or purchase a membership.

INSTRUCTIONS
1. Write a plan for Elena Rodriguez explaining the types of financial information she needs to record. Describe the source documents that might be a part of her business. For example, should Elena send invoices to her non-membership clients or ask them to pay at each visit? Describe why it is important for Elena to record both the cost of doing business and the income from the business.
2. Suggest a chart of accounts for Elena’s business.

Gossip in the Workplace
Assume that you are an accounting clerk for a large insurance company like Farmers Insurance. Your boss introduces you to the newest hire, and you remember that Sally had been suspended from school for a series of locker thefts. During lunch you consider telling other co-workers about Sally’s history. You also wonder if your boss knows.

ETHICAL DECISION MAKING
1. What are the ethical issues?
2. What are the alternatives?
3. Who are the affected parties?
4. How do the alternatives affect the parties?
5. What would you do?
Real-World Applications and Connections

Describing Source Documents
Write a paragraph describing the content of invoices, check stubs, memorandums, and receipts. Explain how to verify and analyze these source documents before an entry is made in the journal.

Creative Thinking
Congratulations! You have been chosen as the local Business Owner of the Year! Write a one-page press release describing your business and why you have been successful. Be sure to include a brief description of your business, the skills you use in running a successful business, and how you plan to continue being successful in the future.

Dating Documents
Source documents from different countries can have different date formats:

<table>
<thead>
<tr>
<th>United States</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date written out</td>
<td>July 6, 2010</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>7/6/10</td>
</tr>
<tr>
<td>Format</td>
<td>MM/DD/YY</td>
</tr>
</tbody>
</table>

As you can see in this example, writing out the month prevents confusion. The International Organization for Standardization (ISO) promotes the worldwide use of a single format: YYYY-MM-DD.

INSTRUCTIONS Write the date February 17, 2010, using the ISO recommended format.

Your Personal Finance Records
Your day-to-day source documents are personal financial records. Personal financial records also include documents that are not related to everyday transactions. Vehicle titles, birth certificates, and tax returns are all personal financial documents. You can store your financial documents in home files, a home safe, or a safe-deposit box. You can also keep some financial records on a home computer.

PERSONAL FINANCE ACTIVITY Imagine a person your age who drives to a part-time job and has a credit card. Make a list of the types of records and documents such a person would probably have. Create a plan that describes which records and documents to store and where to store them.

PERSONAL FINANCE ONLINE Log on to glencoeaccounting.glencoe.com and click on Student Center. Click on Making It Personal and select Chapter 6.

Transactions in Sports
The general journal can be used to record all types of transactions. Visit glencoeaccounting.glencoe.com and click on Student Center. Click on WebQuest and select Unit 2 to continue your Internet project.