

ACCT 100 - Introduction to Accounting
Chapter 4 - The General Journal and the General Ledger
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Purpose: So far we have spent a lot of time discussing rules of debits and credits. We have been using T-accounts to record transactions. In this chapter, we start recording transactions using formal accounting documents: journals and ledgers. The purpose of this handout is to summarize key elements of the chapter to assist you in your study efforts.

Reminder: The ability to record a transaction using proper debits and credits represents the main foundation of the accounting process. Everything we do from here on out rests on your ability and familiarity with the basic rules of debits and credits. If you have not mastered the contents of Chapters 2 and 3, go back and study them prior to attempting this chapter.

The General Journal

- The "book of original entry" - the very first place a transaction gets recorded
- It's like a diary of the economic events that have taken place in the firm
- The process of recording journal entries is called journalizing.

Steps for journalizing:

- Because you are beginners, think about the transaction in terms of t-accounts:
- Decide what accounts are affected
- Decide whether the accounts are increasing or decreasing and determine proper debits and credits utilizing the rules from Chapter 3
- Date the entry
- Always record the debits first, including the name of the account(s) - drop the amount(s) in the debit column
- Indent a little and then record the credits, including the name of the account(s) - drop the amount(s) in the credit column
- Indent a little and record a brief explanation
- Skip a line and start the process again

How do we track the balances? **Introducing the General Ledger**

The general journal makes a great diary and it's a great daily log of the transactions as they occur. However, it has a problem. ***It does NOT track the cumulative balances.*** We have another tool for doing this. We have a listing of all accounts called a general ledger.

The *General Ledger* is a book that contains the detailed transaction for all accounts

The primary purpose of the ledger is to track the individual account balances

Accounts are organized in chart of account order with assets first, then liabilities, then equity accounts, then revenue accounts, then expense accounts

The ledger must be flexible enough to allow for the addition of new accounts

The Posting Process - Getting amounts from the Journal to the Ledger

- From the journal, the following information is posted:
- The date
- The debit and credit amounts
- The page number of the journal that the entry came from
- Don't forget to keep track of the cumulative balances after each posting

Remember the Trial Balance?

Remember in the last chapter, after we had posted all the debits and credits to T-accounts, we needed to insure that the debits = credits. Well now with all the postings flying around, we need to insure this again.

Follow the same procedures as outlined last time:

From the ledger, pick up all the ending balances after posting and drop them in the appropriate debit or credit column.

Foot the totals to make sure they balance.

What if the debits do not equal the credits?

Be assured it happens to the best of us. So what do you do?

Look for normal balances. Remember all accounts have normal balances. Check to make sure that:

- All assets have debit balances
- All liabilities have credit balances
- The capital account has a credit balance
- The drawing account has a debit balance
- All revenues have credit balances
- All expenses have debit balances

Check the footings of the trial balance.

If the difference between the debits and credits is evenly divisible by 9, you have most likely made a transposition error or slide error. Look carefully for it.

Look for double the amount or - of the amount

You may have only posted - of an entry - or you may have posted a debit or a credit twice.

If this doesn't work, go back and re-foot all the ledger accounts and double check the posting of the transactions.

Correcting Errors

Finding the error is the hard part. Correcting it is much easier. The book describes the ruling method and the correcting entry method. I strongly suggest you try the "reverse and correct" method as we will demonstrate in class. It will always work, and it is usually easier for beginning students to understand. If you have kept current, and if you understand the first three chapters, you deserve a huge pat on the back. Keep up the good work. Be confident and study these basic concepts for your first test.

If you have mastered the concepts from the first three chapters, then you are well on your way to successfully completing the course. You

should give yourself a big pat-on-the-back for keeping current as we have moved along at a rapid pace. Keep up the good work!